1963

The fringe benefit in compensation.

Phillips, John Stephen.

George Washington University

THE FRINGE BENEFIT IN COMPENSATION

JOHN STEPHEN PHILLIPS

THE FRINGE BENEFIT IN COMPENSATION

By

John Stephen Phillips
Lieutenant Commander
United States Coast Guard

Bachelor of Science 1951
United States Coast Guard Academy
New London, Connecticut

A thesis submitted to the Faculty of the School of Government, Business, and International Affairs, of The George Washington University in partial satisfaction of the requirements for the degree of Master of Business Administration

June 5, 1963

Thesis directed by

Arlin Rex Johnson, Ph.D.
Professor of Business Administration

PREFACE

This paper represents a study of the non-wage component of compensation, and its effect on the labor market, on public finance, and on the general economy of the country. It is the intention of the writer to show how non-wages have become an accepted method of compensating an employee by explaining what non-wages are, why they are needed and what they cost the employer. Through the utilization of specific categories of non-wages it is anticipated that the impact of this comparatively recent phenomenon in industry can be dramatically illustrated.

This study will touch on the broad aspects of the subject. No attempt has been made to analyze each and every aspect of non-wages because they are too varied and categories of non-wages too numerous. The conclusions will attempt to, one, support the contention that actually little is known and less is understood about the effects of fringe benefits, and secondly, indicate that there is a desperate need for a philosophy of compensation.

TABLE OF CONTENTS

Chapter	Page

LIST OF TABLES

LIST OF ILLUSTRATIONS

CHAPTER I

COMPENSATION, ITS EVOLUTION

Compensation is "the payment made to members of work teams for their participation."[1] It could be described as payment for services rendered. The payment may be immediate, as in basic pay, or maybe deferred, as in retirement. It may be an hourly-based wage or a yearly-based salary. It may be service-wide, as basic pay is in the military, or special and contingent, as hazardous duty pay is in the military. The only common denominator is that it is a reward for services rendered.

> The application of the term to payment for services rendered was originally a stilted piece of elaborate politeness, a way of saying 'Of course we wouldn't do anything so vulgar as to pay you; we offer this sum merely to offset the loss of your time.' . . . In America the term compensation has been used so much for wages or salary that it is now standard in that sense, with none of the connotations of making amends for loss or damage.[2]

Throughout the industries of the United States in 1961, a salary or a wage constituted 79% of the employee's total

---

[1] Dale Yoder, Personnel Management and Industrial Relations (4th ed.; Englewood Cliffs, New Jersey: Prentice-Hall, Inc., 1956), p. 475.

[2] Bergen Evans and Cornelia Evans, A Dictionary of Contemporary American Usage (New York: Random House, 1957), p. 107.

[illegible]

[illegible]

[illegible]

> [illegible]

[illegible]

[illegible]

[illegible]

compensation.[3] Salary has a definition which is accepted as universal; it may be defined as the amount paid to an employee whose contract calls for a monthly or annual compensation. In general, wages are the payments made to those who have no guarantee of employment throughout the week, or from one week to the next.

Compensation is a small, but vital part of a larger area of management, broadly described as industrial relations. This is a designation given to the whole field of human relationships which exist in modern industry. It is a function that consists of planning, organizing, and controlling, as well as procuring, developing, maintaining, and utilizing people. The area is broad and the functions cannot be easily separated because they are interdependent.[4]

Industrial relations or the "personnel function" is only one aspect of management. The other phases, money and material, are equally important. Yet these two latter aspects depend upon the first. Koontz and O'Donnell have said that:

> The coordination of human effort is the essence of all grouped activities. . . . The fundamental component of this association is management--the function of getting things done through others.[5]

---

[3]Chamber of Commerce of the United States of America, Fringe Benefits 1961, A Report Prepared by the Economic Research Department (Washington, D. C.: Chamber of Commerce of the United States, 1962), p. 30.

[4]Michael J. Jucius, Personnel Management (4th ed.; Homewood, Illinois: Richard D. Irwin, Inc., 1959), p. 6.

[5]Harold Koontz and Cyril O'Donnell, Principles of Management: An Analysis of Managerial Functions (New York: McGraw-Hill Book Company, Inc., 1955), p. 3.

[illegible][1] [illegible]

[illegible]

[illegible][2]

[illegible]

> [illegible][3]

---

[1] [illegible]

[2] [illegible]

[3] [illegible]

One tool available to assist in the achieving of this coordination is compensation.

Concepts of Compensation

Compensation is complicated because management has never determined a means by which it could measure how much a man's work is worth in financial terms. This problem of wages and salaries is compounded by the prominent part they play in personal, economic, and social relationships. Wages can be considered from the viewpoint of the employer or the viewpoint of the employee. It has been thus since the earliest days of recorded history. The owner of the vineyard felt he knew what a man's work was worth:

> But when evening had come the owner of the vineyard said to his steward, 'call the laborers, and pay them their wages, beginning from the last even to the first.' Now when they of the eleventh hour came they received each a dinarius. And when the first in their turn came they thought that they would receive more; but they also received each his dinarius.[6]

But the workers were not as certain:

> And on receiving it, they began to murmur against the householder, saying, 'These last have worked a single hour, and thou hast put them on a level with us, who have borne the burden of the day's heat.[7]

The employer-employee relationship with its many attendant problems existed in biblical times just as it does

---

[6]Matt. 20:8-10.

[7]Matt. 20:11-12.

in modern industrial relations. The concomitant problems of how to measure man's worth and how to satisfy his needs were also evident. The vineyard employer answered one of the workers:

> Friend I do thee no injustice, didst thou not agree with me for a dinarius? Take what is thine and go; I choose to give to this last even as to thee. Have I not a right to do what I choose? Or art thou envious because I am so generous?[8]

It could be assumed that this reply was satisfactory from the employer's standpoint, but the worker's contentment was probably less than ideal. Such a solution certainly would not satisfy a modern day employee.

Since the end of the first World War, a new concept of employment in industry has developed. Around employment has grown a network of employer obligation and employee rights which involve not only the dignity and welfare of the individual worker but also the security and well being of the members of his family. The consequence has been that in a vast area of American industry, the pre-World War I "commodity concept" of employment has been displaced by a post-World War II "welfare concept" of employee-employer relations.[9] One of the most potent concepts of economics is that of the market. The market is the place where the forces of supply and demand

---

[8] Matt. 20:13-16.

[9] Richard A. Lester, "Revolution in Industrial Relations," Labor Law Journal, IX (June, 1958), p. 439.

converge to establish an exchange of a commodity at a price or succession of prices. In the decades following the Industrial Revolution this concept was applied to the purchase and sale of labor services. Until World War I, labor was viewed by corporate management almost in commodity terms. Its purchase and sale were generally on a short-term basis. Firms assumed few, if any, continuing obligations to employees; the cash nexus was practically the only tie.[10]

The Evolution of Employment Relationships

Employment relationships have passed through many phases. Prior to the Industrial Revolution the most common type of employee-employer relationship was that in which employers were masters and employees were virtual slaves. A typical employee of the period, one slightly above the true slave, was the serf. The serfs' position in the manorial system entitled them to certain fairly well-established rights. Their duties and obligations were defined largely in terms of the quantities of produce which they should render to the master, and, if possible, military service. This era was described as the "agricultural" period; the predominant investment of production was the manor, and the principal products were agricultural.

As time passed, some of the serfs developed special skills, and those who did were occasionally able to purchase

---

[10] *Ibid.*, 439.

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

their freedom. Having once established their independence, they were then able to sell their products or services.

These early entrepeneurs were designated artisans. Essentially they were wage earners, but their wages were subjected to regulation, principally by church authorities.[11] Eventually the artisans increased in numbers, and found that it would be advantageous if they were to band together for economic purposes. These groups became known as guilds. Eventually layers appeared within the guilds; master-craftsmen, journeymen, and apprentices.

The appearance of these layers within the guilds marked the beginning of an early wage and salary apparatus. At the same time, limited benefits and services began to make an appearance; wages, hours, and other employment conditions were determined by guild regulations. The guilds provided fraternal as well as death, disability, and unemployment benefits.

The Industrial Revolution greatly affected the old order within the guilds. Machines replaced hand tools, making it necessary to have more capital and equipment to start a business. Journeymen found it difficult to raise this money, and without it, it became impossible for them to progress to mastercraftsmen. The old guilds no longer were able to satisfy the needs of their members. In time, the journeymen left the older guilds and formed other groups known as <u>yeomanry</u> guilds. This new type of guild was created for the purpose of protecting

---

[11]Yoder, <u>op. cit</u>., p. 37.

the rights of the journeymen and apprentices in their dealings with their employers, the master craftsman.[12]

The factory system was an outgrowth of the Industrial Revolution. Production moved from the home to the factory. This move greatly altered the previous relationship between the master and the journeyman. The master now became the factory owner or industrial capitalist,[13] while the journeyman and apprentice became the employees. Perhaps most important, the employee now faced a future in which he would, in all likelihood, remain an employee throughout his working lifetime.

Early working conditions within the factory reflected the laissez-faire economic and political philosophy of the period. No governmental regulations existed. The direction of manpower was left in the hands of the factory owner. Banding together by the employees for the purpose of bargaining for better working conditions or wages was a criminal act. Women and children were employed under conditions detrimental to their health and welfare. The philosophy of the factory owner was that social benefits would occur if no public interference were attempted.

Changes occurred despite attempts by the owners to keep conditions static. Real family income was higher as a result of many members of a family all working. Living

---

[12] Ibid., p. 38.

[13] Ibid., p. 39.

conditions showed some slight improvements. Productivity increased as did the capital-worker ratio. Families became more adaptable and could be employed at various jobs. Finally they progressed to the point where they were able to choose from alternate employment opportunities.

Although the employee had progressed to the point where he could choose his employer, he was still considered as a commodity by the employer. This was revealed in the philosophy of "scientific management" as well as in the attitudes of American management. Management assumed that man's goal in the factory was to make money. This kind of assumption was representative of Frederick W. Taylor and his followers in the "scientific management" movement. Actually Taylor was preoccupied with improving production techniques and was not concerned with the human needs of the employees.

Management's preoccupation with Taylor's "principle of scientific management" caused them to consider man as a machine and not as an individual. Management considered man collectively as a "rabble". They felt that the nature of human motivations was such that it could be satisfied by a reward and punishment system and that this system would produce the desired productivity. Following such a theory, management deduced that an employee could be induced to produce more, simply if he were paid more. Such a system of economic motivation led directly to the development of a method of compensation known as the piece work incentive system.

Management also assumed that each employee would respond to an economic incentive as an isolated individual and that group interaction among the employees would have no bearing on productivity. It felt that man, like machines, could be treated in a standardized fashion. The time-study man could, through his calculations, obtain an average for the "standard workman". The average could be applied to all employees. Management also assumed man was normally passive and must be stimulated in order to go into action. It readily accepted Taylor's principles but they were objected to strenuously by labor, particularly labor unions.

The Evolvement of the Welfare Concept

The evolution away from this commodity concept toward a welfare concept of employment was caused by many factors. The relative shortage of labor under full employment was one. Another was the change in the composition of the nation's labor force.[14] In the United States, at the turn of the century, when great waves of immigration poured into this country's growing industries, a worker had little protection against arbitrary management action. Management lost this advantage when immigration was curtailed. It was forced to acknowledge the importance of the human factor in organizational performance.[15]

---

[14]Lester, op. cit., p. 439.

[15]Paul Pigors and Charles A. Myers, Personnel Administration: A Point of View and a Method (4th ed.; New York: McGraw-Hill Book Company, Inc., 1961), p. 6.

Another factor in the evolution was the advance in the level of education of factory workers. Also, capital investment per employee increased, resulting in increased employee responsibility. This increase sparked a growth in on-the-job training. All of these factors induced management to think more in terms of the company's investment in its workforce and of the work-life attachment of the employee to the firm.[16]

Other developments shifted the emphasis from a worker's gratification through money earnings to an on-the-job satisfaction, and security for themselves and their families. "Advances in psychology and sociology have indicated that non-financial considerations are important in worker contentment and that . . . treatment of employees with respect and winning their loyalty can pay off in company profits."[17]

Labor union growth spurred management into placing greater stress on personnel programs and human relations. Instead of merely a means for employment, companies took on many of the aspects of a community center, a school, a medical and psychiatric clinic, and a polling and magazine office, all in the name of good employee relations.[18] However, there are companies in business today that still adhere to the "money is the only motivation" school of management, and are

---

[16] Lester, loc. cit.

[17] Ibid.

[18] Ibid.

apparently operating successfully.[19]

The labor unions played a significant role in the eclipse of the commodity concept of employment. They have done this by expanding the scope of bargaining and by adding new dimensions to the employment concept. This expansion has taken the form of new rights and protections. The obligations incurred by the company extend from the moment the employee commences his employment until he retires, in almost all cases, and in an increasing number of instances are continued after retirement until death.[20]

Formal labor-management relations and contractual obligations make it even more difficult to eliminate individuals from the work force. This means that people are going to be around longer on a given job, and with a continuing relationship, the nature of the relation and its fruitfulness becomes more important. As the worker begins to feel secure in his job and sure of his continued pay, other things--his feeling about his superiors, about his fellow workers, about himself, and about his job--become more important to him.[21]

This shift to a welfare concept helps to account for the long term decline in labor turnover rates in this country,

---

[19]Cf. "Lincoln Electric Bonus is No Gift," The Plain Dealer (Cleveland), December 10, 1961, and "Incentive Program's Success Scrutinized," The Christian Science Monitor, May 12, 1959.

[20]Lester, op. cit., pp. 439-440.

[21]Mason Haire, Psychology in Management (New York: McGraw-Hill Book Company, Inc., 1956), p. 7.

especially in manufacturing industries. The benefits and rights which accrue to the employee are not transferrable from company to company, thus workers are less prone to change jobs than they used to be. This is a significant evolution in the nature of industrial employment; one which raises interesting questions for the future.

The labor movement has blurred the distinction between the blue-collar worker and the white-collar worker. The plant workers' inferior status has been destroyed through the use of collective bargaining, primarily, and to a lesser extent by labor and social-security legislation. "Both bargaining and legislation have represented decisions by collective determination and community standards in contrast to individual action and market standards."[22] This can be seen in the spread of management privileges to plant employees, the enhancement of worker's status through legislative action, the compression of the income structure through reduction of differentials, and the participation of blue-collar workers in the solution of management problems and decisions.

This change in the "labor-market" has had a pronounced effect on compensation. In the first decade of the 20th century the employee was compensated in money. The employer looked upon these wages and salaries as the means of creating and maintaining an effective working organization. Management's interest was to adjust the wages and salaries to a

---

[22]Lester, op. cit., p. 440.

level that would meet its needs at the lowest cost. Emphasis on cost by the employer often causes him to think in terms of paying for work rather than people.[23]

A New Form of Compensation

Money has been the primary means of rewarding an employee for services performed from the time of the Industrial Revolution up to today. However, in 1963, it is not the only method of compensation. Increasingly the rewards to employees have taken the form of benefits and services. To illustrate this change it is necessary to look at the relation of wages to services and benefits, or non-wages as they were referred to, just a few years ago.

In 1929, the emphasis was still on wages and salaries rather than on services and benefits or non-wages, and in that year non-wages represented but 1.3% of the costs of wages and salaries. In 1961, these costs of non-wages had increased to an average of 8.4% of wages and salaries for all industries.[24] Without question non-wages have become a significant part of the compensation costs of management. It is a recent development in industrial relations and one that is not always well understood by management. A detailed review of the subject also indicates that labor does not always have a realization of the effect of non-wages on the union movement within the United States.

---

[23]Yoder, op. cit., p. 477.

[24]Fringe Benefits 1961, op. cit., p. 32.

CHAPTER II

NON-WAGES--WHAT, WHY, AND HOW

As has already been indicated, compensation consists of wages and non-wages. The first area, consists of salaries as well as wages and is easily understood and comprehended by the employer, the employee, the union, and the casual observer of the labor-market. True, no one has solved the problem of determining how much a man's work is worth to the satisfaction of everyone concerned; still, there is little misunderstanding of the wage structure. This is not true in the area of non-wages, which are difficult to understand because they defy easy definition. They have been loosely described as "fringe benefits", a term which came into use during the second World War. It described the money costs and employment benefits which were on the periphery of, but actually outside, direct wage payments.[1]

Although "fringe benefits" is the commonly used term to describe non-wages, a further investigation of the definitions of the term illustrates the wide divergence among authorities as to what they actually are. The definitions are both broad and narrow, and all are difficult.

---

[1]Austin M. Fisher and John F. Chapman, "Big Costs of Little Fringes," Harvard Business Review, XXXII (September-October, 1954), p. 35.

Some definitions include as fringes "income . . . usually recognized as wages and regularly taxable, such as overtime payments," and at the same time exclude " . . . payments that seem designed to benefit the employee and might properly be taxable, such as board and lodging, health services, and prerequisites of office."[2]

Landman, for example, says "fringe benefits are goods and services in addition to wage payments as conditions of employment, as incentives for greater effort, as conveniences for the employer, and/or as promoters of employee health, good will, and efficiency."[3] Such a definition raises some questions as to whether a fringe, or for that matter wages themselves, can be both a "condition of employment" and "an incentive for greater effort." The terms tend to contradict each other. An employee who receives fringes, and assumes them to be part of the condition under which he came to work, may not be inclined to view them as incentives and therefore should show his appreciation for them through added effort. Too often he will view these benefits as "nice but as an earned program, and therefore not calling for an unusual amount of gratitude."[4]

---

[2]Hugh H. Macaulay, Jr., Fringe Benefits and their Federal Tax Treatment (New York: Columbia University Press, 1959), p. 4.

[3]J. Henry Landman, "The Taxability of Fringe Benefits," Taxes, XXXIII (1955), p. 173, cited by Hugh H. Macaulay, Jr., Fringe Benefits and their Federal Tax Treatment (New York: Columbia University Press, 1959), p. 4.

[4]Chapman and Fisher, op. cit., p. 39.

The National Industrial Conference Board points out that definitions verge between two extremes. "Any expenditure in labor other than straight-time wages"[5] is a broad definition which could include items such as watercoolers, overtime pay, and even wages of the personnel department. The narrowest definition classifies as a fringe benefit "any company expenditure above straight-time pay, that has cash value to the individual employee."[6] The "cash value" aspect of this definition refers to the ability of the employee to convert the benefit into cash and would eliminate employee meals, recreation, most life insurance, and most pension plans.[7]

Perhaps as a result of the disagreement over definitions, fringe benefits are more often listed than defined. There are some extensive listings, such as the one compiled by Dale Yoder which lists sixty-five different fringes.[8] Professor C. W. Sergent in "Fringe Benefits: Do We Know Enough About Them?" has itemized nearly sixty individual non-wages.[9]

The National Industrial Conference Board agrees that definition is difficult, but that fringes fall into four categories.

---

[5]Harold Stieglitz, Computing the Cost of Fringe Benefits, Studies in Personnel Policy, No. 128, National Industrial Conference Board, Inc. (New York, 1952), p. 5.

[6]*Ibid*. [7]Macaulay, *op. cit*., p. 5.

[8]Yoder, *op. cit*., p. 492. See Appendix I.

[9]Macaulay, *op. cit*., pp. 4, 185-186. See Appendix II.

1. Extra payment for time worked.
2. Payments for employee security.
3. Payments for time not worked.
4. Payments for employee services.

The Board then lists thirty-five candidates under the name "fringe benefits."[10]

Dale Yoder attempts to classify many of the non-wages into either benefits or services. To him 'benefits' are "regarded as the more tangible financial contributions to employees--special payments to those who are ill, contributions to employee savings, distribution of stock, insurance, hospitalization, and private pensions. . . . 'services' . . . are actions taken for the assistance or aid of employees, such as the provisions of legal aid, or personnel counseling, or recreational advice and guidance."[11] Such a fine breakdown may be unnecessary. Indeed, Yoder continues: "distinction is not sharp or uniformily observed, as will be apparent from the frequency with which the terms are used as synonyms."[12]

Benefits and services have certain characteristics. First, they are primarily advantageous to the employee. Second, they are distinctly supplemental to regular wages. Third, they are supported or financed in part, or altogether by the employer. Fourth, they provide a type of assistance or aid that

---

[10] Cf. Stieglitz, op. cit., pp. 8-9.

[11] Yoder, op. cit., p. 634.

[12] Ibid.

an employee, as an individual, either cannot or is not likely to secure.[13] The National Industrial Conference Board characterized fringes much as Yoder has characterized benefits and services. Yoder indicates that benefits and services are included "among so-called 'fringe' items,"[14] while the National Industrial Conference Board uses the same characteristics listed above to describe "Fringe Costs."[15] The point to be made from all this is that the line separating benefits, services, and fringes is extremely fuzzy.

Increasingly the term "supplemental wages" or "supplement to wages" is found describing fringe benefits. The United States Department of Commerce lists certain fringes as "supplements to wages and salaries," as in the National Income statistics. The National Industrial Conference Board prefers to refer to fringes as "plus-wage payments, benefits, and services," because it is a general term which is more descriptive.[16]

"Fringe benefits" seems to be the most popular phrase and is the term used by the United States Chamber of Commerce in its survey of compensation within industry in the United States.[17]

---

[13] Ibid. [14] Yoder, op. cit., p. 633.

[15] Stieglitz, op. cit., p. 6.

[16] Ibid.

[17] Fringe Benefits 1961, op. cit.

The Development of the Fringe Benefit

"Fringes" were seldom heard of in industry before the 1940's. They did exist prior to this time, but were of minor consequence and "were confined largely to executives, supervisors, and white collar workers."[18] Executives, subject to higher income taxes logically were the recipients and beneficiaries of fringe benefits in the 30's. Paid vacations probably accounted for the inclusion of the white collar worker.[19]

It was with the advent of the social legislation of the Franklin Roosevelt Administration, and the simultaneous upsurge in the power of trade unions, that fringes really began to appear and multiply.[20] Between 1929 and 1940, the total supplement to wages and salaries increased from $662 million to $2,311 million, a 3.5 fold increase.[21] This $662 million of untaxed wages represented 1.3% of the total wages and salaries in 1929, whereas the $2,311 million represented 4.6% of the total in 1940.

Managements in the mid-thirties were desirous of maintaining industrial peace with the unions. As part of the apparatus to obtain this peace, management often devised big-sounding concessions, involving apparently nominal costs, and

---

[18]Fisher and Chapman, op. cit., p. 37.

[19]Macaulay, op. cit., p. 8.

[20]Fisher and Chapman, loc. cit.

[21]Fringe Benefits 1961, op. cit., p. 32.

threw them into the pot. Jury pay, voting pay allowances, an extra holiday, and similar fringes were unimpressive as individual costs. Eventually when they began to accumulate on most unionized payrolls these costs became impressive.[22]

In the 1940's, with social legislation already in force, and wage controls in effect during the second World War, the emphasis shifted to other labor income such as pensions, health and accident insurance, group life insurance, and paid vacations and holidays. Labor was scarce and management had difficulty attracting good employees in the highly competitive labor market. Wages were frozen, so management turned to fringe benefits as a means both of holding and attracting workers. The government was paying the bill for many of the companies so that costs of these fringes were largely ignored by management.

The fringes for the mass of hourly paid employees and low salaried clerical force in industry blossomed with the wage freeze. By 1945, the total supplement to wages and salaries had increased to $5,604 million.[23] The benefit pattern had been set and neither labor or management would be able to forget about fringes in the future.

By 1949, fringes had become an important part of every payroll. According to the Chamber of Commerce, fringe payments represented 14.3% of payrolls in the selected companies it

---

[22] Fisher and Chapman, loc. cit.

[23] Fringe Benefits 1961, loc. cit.

surveyed. This represented a cost of $143 per employee per year.[24]

Labor was demanding, or industry was offering increasing benefits to workers even when business was slack. The Korean War accelerated the trend and the acceleration continued ever since.[25]

By 1954, management had become aware that these special inducements or extras were now a fixed part of the accepted employment structure and were regarded as the subject of negotiation between labor and management on the same basis as issues of wages and salaries.

Several scattered facts on the size and growth of fringe benefits have been given. The factors of a rising social consciousness, the advent of wage controls, competition among employers for workers, and increased tax rates all contributed to this growth. The aroused social responsibility resulted in legislation which improved the laboring man's future. The rousing consciousness caused management to become aware of certain responsibilities it had toward its employees. It could be argued whether management actually felt empathy toward its employees, or whether the rise in power of labor unions pushed management into that position.

---

[24] _Ibid_., p. 28.

[25] Fisher and Chapman, _op. cit_., p. 39.

Fringes--the Hardy Perennial

Wage controls during both the second World War and the Korean period brought "a burgeoning of benefits, the end of the freeze did not witness the passing of the hardy perennials . . . they have remained and have drawn substance from other sources."[26] Traditionally cash wages had been the chief weapon used by employers in their battle for employees. Now, fringe benefits have become equally important. Originally, when competition was stiff, the company offering the fringe benefits had a great attraction for new workers; now the situation has turned around to the point where the firms not offering fringes fails to attract workers. The power of these fringes to attract and hold workers is still being contested. However, the employee is being "locked into" his company more and more as fringe benefits continue to grow as a percentage of total wages.

"Perhaps the most important single cause of the growth of fringe benefits has been their tax treatment."[27] Certain fringes are tax-preferred and so are desired by employees, especially employees in the higher tax brackets. This influence of taxes has caused a second pressure to bear, namely, the high corporate tax rates and excess profit taxes have lowered resistance of business to additional fringe benefits.[28]

---

[26]Macaulay, *op. cit.*, p. 13.

[27]*Ibid.*, p. 14. [28]*Ibid.*

Macaulay feels that lesser causes have also influenced the growth of fringes. He cites, as the additional causes, the removing of insurance and pension contributions from wage control, and the broadening of the area of collective bargaining to include such fringe benefits as pensions, group insurance, stock bonuses, houses and meals furnished by the employers; all results of court interpretations of the Taft-Hartley Act.[29] These factors, plus the continued competition for employees and the aroused social responsibilities of the employers, continues to exist, which portends the continued growth of fringe benefits. It should be obvious that fringe benefits creates a semantic blur. This blur is a contributing reason why the average businessman has scant knowledge of their true present costs, their rate of growth, or their directional trends.

The Cost of the Fringe

Computing the costs of these fringes is a monumental task. It is difficult for two primary reasons. First, no two employers can agree as to what should be included as a benefit and what should be excluded. The employers have no corner of this misunderstanding; the unions cannot agree among themselves either. With such a disagreement, no rationale can be established, no base is found from which bargaining can start, or from which costs can be computed. The second reason follows from the first. Once, and if, a fringe benefit can be

---

[29] *Ibid.*, pp. 14-15.

[illegible]

[illegible]

[illegible]

[illegible]

identified, how can a dollar cost be placed upon it? As an example, an hourly-paid worker receives his wages based on a certain scale, but no such scale exists that tells the employer how much that employee was paid for his rest period or wash-up time.

Three questions might be asked. Why does management need to know the cost of fringes? What are the fringe costs that companies compute? How does a company put a price tag on these various fringe benefits?

First, management needs to know the "why" because the growth of fringe benefits has increased the cost of doing business. Thus data on costs is useful in cost analysis, employee education, and union negotiations.[30]

Seeing the cost of certain practices gives rise to speculation as to how the costs can be controlled and how they can be reduced. Although the practices are covered by union contract and cannot be changed, the company can often control the factors which contribute to the cost of the practice.

Aside from controls, the fringe cost data are important as a first step in an attempt to evaluate the companies' programs. Too often in the past a company has provided fringes to its employees and when asked why they can seldom give a rational answer. "Management rarely thinks _why_ the fringe should be given but rather it reasons it must grant them otherwise it will face, at the best, dissatisfaction

---

[30]Stieglitz, _op. cit._, p. 4.

among the employees or, at the worst, a strike."[31]

Some of the more conventional reasons put forth as to why fringes are granted are: (1) It is the "right" thing to do; (2) it is necessary to attract and retain employees; (3) unions must keep on demanding "more;" (4) a government board sets a pattern and generalized it; (5) a union forces a concession and generalized it; (6) "we can afford it;" (7) we can get a better deal for our employees; or (8) keeping up with the Joneses.[32]

The company should view the fringe benefit and services as a package. Armed with the data determined from the cost analysis, the company should determine "the proper mix of fringe benefits"[33] just as they would determine the proper mixture for products and profits. This mix should maximize employee satisfaction and assure efficient production. The company must then determine how much money will be available to cover the cost of the fringes for a given future period. Next the company would assign preference values to each fringe, having considered (1) the legal requirements, (2) employee preferences, and (3) management preferences.

---

[31] "Fringe Benefits: Some Neglected Considerations," Personnel, XXXIII (January, 1957), p. 338.

[32] Ibid., pp. 339-341.

[33] Joseph H. Foegen, "Product Mix for Fringe Benefits," Harvard Business Review, XXXIX (July-August, 1961), p. 67.

The last and most important step is to decide which would be the optimum combination of the various benefits to produce the most desirable results. It is possible that the methods of operations research could be applied in the solution process. This approach will certainly not produce mistake-proof results, but at least it would be a step toward putting fringe benefits in a logical frame of reference rather than allowing them to grow at random or at the whim of the unions.[34] Knowing the cost is simply good business.

A second practical use of knowing the cost of fringes is in employee education. Putting a dollar and cents sign on these fringe items is part of showing the employees a few more of the economic facts of life. Pay checks only tell part of the story.

Companies use many approaches in getting across this idea. One approach is to speak of fringe expenditures in terms of additional earnings or payments. A company will publish these figures so that the employees can see how much more they actually receive per hour. Figure 1 illustrates the method used by the Minnesota and Ontario Paper Company to tell its employees of their pay envelope extras. Occasionally such an approach backfires on the company. The employee, on learning how much he received in fringes per hour, may ask the employer to increase his pay by that much and forget the

---

[34] _Ibid._, pp. 67-68.

FIGURE 1

TELLING EMPLOYEES ABOUT FRINGES

Source: Harold Stieglitz, <u>Computing the Cost of Fringe Benefits</u>, Studies in Personnel Policy, No. 128, National Industrial Conference Board, Inc. (New York: 1952), p. 48.

fringes. Some union people feel that "fringe benefits, although they benefit the employee, are neither pay for work performed nor a spendable payment."[35] Often the union feels that the fringes are "conditions of employment under which employees work."[36]

A second and more widely used approach is to consider fringe expenditures in terms of additional labor costs. This approach stresses the "This is what the company spends on you" idea.[37] Every employee of the United States Rubber Company is given an annual report on the scope and size of the fringe benefit program. The method varies from year to year. In 1960, a receipted invoice was used to represent the report and was mailed to each employee's home. In 1961, the report took the shape of a price tag, as illustrated in figure 2. The reverse side of the tag contained an explanation of how the average price of $1586.30 was reached.[38]

The Royal MacBee Corporation used a contest as a means of communicating to their employees the value of their long-range benefits. Royal MacBee reproduced a company pay check in the monthly employee publication. An entry blank was printed below the check, certain blanks representing ten

---

[35] Stieglitz, op. cit., p. 5.

[36] Ibid. [37] Ibid.

[38] J. Roger O'Meara, "Putting a Price Tag on Fringes," Management Record, XXII (May, 1961), pp. 24-25.

[illegible]

[illegible]

[illegible]

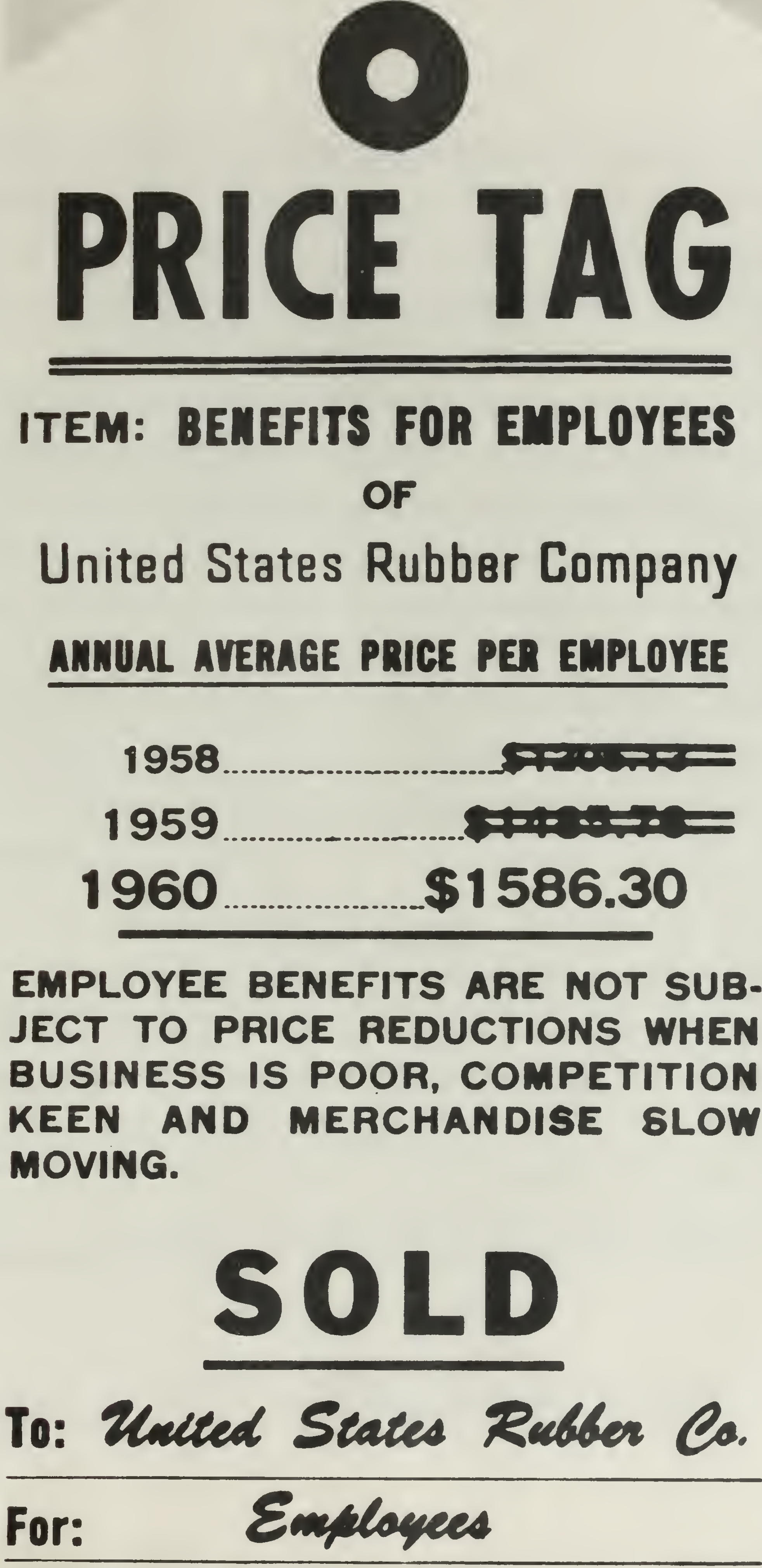
[illegible]

[illegible]

[illegible]

FIGURE 2

PRICE TAGS ON FRINGES



Source: J. Roger O'Meara, "Putting a Price Tag on Fringes," _Management Record_, XXIII (May, 1961), p. 24.

separate fringe benefits. Each month the employee estimating closest to the cost per employee of the particular "fringe of the month" received a savings bond. Thus Royal MacBee made a communications program interesting and informative.[39]

Management must know the costs of fringes if it expects to bargain successfully with unions. The time when unions were primarily concerned with increase in wages and decreases in the work week has passed. Unions view fringes "as a package of money gains."[40] The unions tell their members that they have received an x cents per hour package--so much across the board and so much in fringes. Industry must be able to compute the cost of the fringes to bargain intelligently. The question as to "What are these costs?" brings management back to the point which is so often discussed: "What is meant by a fringe?"

Is It a Fringe?

The practice included in fringe costs tabulations vary from company to company. There is no standard definition which meets all companies' concepts of fringes. Managements do agree on four basic categories:[41]

---

[39] J. Roger O'Meara, "Hidden Pay Check Contest," Management Record, XXIII (November, 1961), pp. 14-15.

[40] Stieglitz, op. cit., p. 5.

[41] Cf. Stieglitz, op. cit., p. 6; Chapman and Fisher, op. cit., p. 39; and Fringe Benefits 1961, op. cit., pp. 35-38.

1. Premiums for time worked.
2. Payments for time not worked.
3. Payments for employee benefits.
4. Payments for employee services.

"Premiums for time worked" includes overtime pay, the oldest fringe benefit enjoyed by the blue-collar worker. Time-and-a-half, double time, and shift differentials are all well known terms. During the past two decades there have been some innovations within this category that are not as well known as time-and-a-half. Automatic wage adjustments have become quite common, especially the escalator provisions, which change wage rates to match changes in the level of consumer prices, and the improvement factor provisions, which specify a percentage increase in all rates to compensate for the rising productivity of industry.

There is no unanimity among companies surveyed by the National Industrial Conference Board as to whether overtime pay should be included as a fringe. Some employers felt that an employee was receiving extra wages for no additional unit production on his part and therefore overtime should be included. In contrast, other employers felt that overtime, although legally required, is scheduled at the companies' discretion. If the company wants the added work it must meet the cost or it will not be competitive in the labor market place. Thus, overtime should not be included as a fringe.[42]

---

[42]Stieglitz, <u>op. cit.</u>, p. 8.

Two newer members of the group of premium pay are "call-in" and "call-back". The "call-in" fringe guarantees an employee minimum pay regardless of how short a time he works. "Call-back" pay guarantees an employee, who is called in by an employer for emergency work, a minimum number of hours of pay.

"Pay for time not worked" is a category in which most companies agree on what should be included. There is little doubt in the minds of the employer that this is pay for which no production whatsoever is received in return. The spectre of this entire category being considered as "conditions of employment" is easy for management to conjure up. Included in this category would be pay for holidays, vacations, summer military leave, sick leave pay, personal excused absence, jury duty pay, paid rest periods, paid wash up time, paid lunch periods, severence pay, and Christmas bonus.

Other benefits in this category are questioned by some companies. Much time is spent on grievances, so certain companies feel that pay for this time is properly included as a fringe benefit, while other companies feel that there is "normal time" spent in communications and hearing grievances which take the place of "open door" policies, and therefore such costs should be excluded from fringe cost determinations.

Educational subsidies are considered by some as having a cash value to the employee and therefore should be considered as a fringe benefit. Other companies feel that the amount

spent is relatively small and is not negotiated with the unions and therefore should be excluded. The extent and liberality of the programs are the keys to the company's decision for inclusion. It is difficult to measure whether a particular course of action may be beneficial only to the employee, only to the employer, or to both, and this makes it difficult to adjudge the costs.[43]

Profit sharing plans are included by the National Industrial Conference Board survey under the category of "pay for time not worked."[44] There was unanimity among the nine companies surveyed that it is properly included as a fringe benefit. There is little argument as to whether it is or is not a fringe, but there may be a question in the minds of some as to whether profit sharing is properly "pay for time _not_ worked." Employees may not view it as such. Some may feel that profit sharing is a partial reward to them for increased productivity. At least one employer felt that his "employees are . . . my partners and receive twenty-five percent of the profits."[45] Thus at least Hershey's management feels that profit sharing is a right of the employees and probably cannot be considered as a fringe benefit.

A decision on where profit sharing should be placed in the four categories of fringe benefits is academic. The

---

[43] _Ibid._ [44] _Ibid._, p. 8.

[45] _The Story of Hershey the Chocolate Town_, Hershey Chocolate Corporation, 1960, p. 23.

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

sharing can take several forms. A bonus can be considered as profit sharing, regardless of its method of distribution. Many companies, such as Lincoln Electric, disperse the bonus annually. Here the bonus is considered as an incentive.[46] In such a situation it might be considered as a deferred wage rather than as a fringe benefit. It is interesting to note that Owen Aldis, writing in the Harvard Business Review, states that this once a year bonus system loses its incentive purpose and that a company would gain more productivity if it were to spread out the bonus payments throughout the year. In this manner the incentive is always there before the employee.[47]

The profit sharing may take the form of stock payments in lieu of cash, but such an arrangement has tended to become less common in recent years.[48] In such plans the employer contributed the stock. Profit sharing was the initial step toward employee stock ownership. Stock option plans differ from profit sharing plans in that, in the former, the employee purchases the stock out of his salary or wages while, in the latter, the stock certificates are given to the employee as his portion of the profit.

In the decade 1951 to 1961, a new form of profit sharing has arisen. Loosely described as an Employee Savings

---

[46] Supra, pp. 10-11.

[47] Owen Aldis, "Of Pigeons and Man," Harvard Business Review, XXXIX (July-August, 1961), pp. 59-63.

[48] Yoder, op. cit., p. 498.

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

Plan, it combines some aspects of profit sharing plans with some aspects of stock ownership plans. The savings plan includes four basic elements:

1. Voluntary employee savings, within a specified range, are made through payroll deduction.
2. Company contributions are primarily a function of the level of employee savings.
3. The combined funds are put into a qualified employee trust for deferred distribution.
4. Company stock and government securities are the predominant form of investment.

In most of these savings plans the company contribution depends entirely on the amount of savings by participating employees. Company profits determine the rate at which employee savings will be matched.[49] It is difficult to predict whether or not most companies would exclude a plan such as this from its cost analysis of fringe benefits. If it were included, is it proper to consider such a plan as pay for time not worked?

The third category of fringes, "payments for employee benefits," contains federal old age benefits, unemployment insurance, workmen's compensation, state disability insurance, pensions, group life insurance, hospitalization, group health and accident insurance, medical-surgical insurance, death benefits, work shoes and clothing, separation pay allowance, and administrative costs of the benefit program. Chapman and Fisher include profit sharing plans and grievance payments

---

[49]Cf. Harland Fox, "Combining Short and Long Term Employee Savings Plans," Management Record, XXIII (May, 1961), pp. 2-14.

[illegible]

1. [illegible]
2. [illegible]
3. [illegible]
4. [illegible]

[illegible]

[illegible]

[illegible]

in this category, which indicates the divergent opinion on where to categorize these fringes.[50]

In this category the companies surveyed by the National Industrial Conference Board agree that all the fringes are of considerable monetary value to the employees. In addition, Federal Old Age Benefits, unemployment insurance, workmen's compensation, and state disability insurance are legally required. There is unanimity that they should be included as fringe benefits.

Certain of the fringes in this category are so interwoven with the personal lives of the employees that they deserve separate mention in this paper. Benefits, such as pensions and retirement, accidental injury insurance, and disability illness compensation have become available to employees in recent years. In certain ways the employee has a personal interest in these benefits. Such an interest tends to lock an employee into a certain company for his laboring life. This lock-in creates a less flexible labor market which may have far-reaching and long lasting effects on the country's economy. A fluid and flexible work force has been a cornerstone upon which the United States has rested its industrial structure.

The fourth category of fringes as listed by the National Industrial Conference Board survey consists of "payments for employee services." This group includes such

---

[50]Chapman and Fisher, op. cit., p. 38.

diversified fringes as company sponsored social events, dances, picnics, and outings; company furnished recreational areas, from in-plant recreation rooms to 18-hole golf courses; clubs and organizations revolving around drama, music, flowers, or airplanes; and company sponsored athletic events on both an intramural and an inter-company competition level.

Other benefits which may be found listed under this fourth category are company cafeterias, which most companies would include as a fringe, as well as credit unions, length of service gifts, suggestions awards, safety clothing, and medical services which most companies would exclude.[51] Length of service gifts may amount to appreciable sums. If large numbers of employees become "locked-in" to a particular employer, the day may quickly come when the costs of this type of fringe will become significant and will have to be included in the total "labor cost" of doing business.

In many instances the nub of the controversy over including or excluding items as benefits revolves around the question: Who benefits more--the employee or the employer? Medical services is a case in point. Those companies which would include it as a fringe benefit do so for the reason that many of the ailments treated are non-occupationally connected, or that the service is saving the employee outside medical expenses. In contrast to this are those companies

---

[51] Stieglitz, op. cit., p. 9.

[illegible]

[illegible]

[illegible]

[illegible]

which would exclude medical services as a fringe. In their view the company's medical staff may in fact handle non-occupational ailments, but the company benefits directly by the reduction in absenteeism. Healthy workers produce better, is their battle cry. Most companies exclude this cost as a fringe benefit.[52]

Most fringe benefits lend themselves to arguments on both sides of the question of who benefits more. There is no doubt in the minds of most employers why paid vacations are an includable fringe benefit. Yet some may argue that the worker, refreshed from his two weeks in the sun, will more than repay the cost of his vacation in his increased productivity.

There is little doubt that what is or is not a fringe benefit, is a question which may never be answered to the satisfaction of all interested parties. One attempt to classify compensation in the military resulted in a different approach to the problem.[53] This project had the problem of identifying, classifying and costing the elements of compensation for members of the uniformed services.

Compensation was classified as salary, supplemental benefits, and "other". Included was a discussion of certain personnel costs other than compensation. Compensation may be

---

[52] Ibid.

[53] Precept to 1962 Defense Study of Military Compensation Board, "Classification and Costs of Military Compensation." (Mimeographed).

defined as payment for services rendered, and includes such things as basic pay and retirement pay. This retirement pay or pensions is considered as "deferred pay" rather than as a fringe benefit. Military personnel receive remuneration for things other than services rendered, and such remuneration is not compensation.

Similarly, indemnities for injury and death were not payment for services rendered but for damages incurred in rendering the service and thus would not be considered as compensation.[54] Unemployment compensation would not be considered as a fringe benefit based upon this type of reasoning. "In the same vein, certain provisions made by the employer for the employer's purposes may be bound to the economic advantage of the employee, but unless the provisions are designed as economic reward for services rendered, they do not constitute compensation."[55] Educational subsidies fall within this definition. Accordingly, a civilian education is aimed at advancement of the employer's mission and cannot be characterized as compensation. This is in conflict with the view in some companies that an educational subsidy is a fringe benefit and therefore _is_ compensation.

Many items heretofore regarded as benefits are resolved otherwise in this Defense Study of Military Compensation Board precept. Medical care for service personnel, military disability retirement, dependency, and indemnity compensation,

---

[54] _Ibid._ [55] _Ibid._

death gratuity, burial costs, and recreational facilities all produce, in some degree, the effect of a benefit, but none are designed as a reward for services rendered. Each of these items was brought into being by conditions and necessities in the mission and operation of the employer, and was designed to meet the employer's liability and need.[56] Some companies in industry would not agree with the reasoning established in this study. The study did not deny that these items cost, but did deny they were payments for services rendered and thus were not compensation. In fact, the survey concluded that these personnel costs other than compensation amounted to over $1 billion in fiscal year 1959. In the same year military compensation amounted to $13 billion.[57]

Sometimes unusual fringes are allowed by employers or are negotiated by the union. As an example, a brewery in New York City, allows its workers to consume its beer during certain hours of the day. A bakery in the same city permits its employees to take twenty-four free bagels home every day. New York City also has a company which bestows an extra day's pay to each employee on the anniversary of his employment. It might be difficult to adjudge as to which category these fringes belong.

Computing the Cost

The difficulties encountered in computing fringe

---

[56] Ibid. [57] Ibid.

benefit costs can be viewed from two vantage points. One, how does a company compute its fringe costs; and two, how does an external agency, such as the United States Chamber of Commerce compute fringe costs. Both views are important and should be considered by each company when that company is about to embark upon a round of negotiations with the representatives of one of its unions.

From the viewpoint of the company, there is no single cost figure which can serve the variety of purposes for which most companies compute their fringe costs. Most commonly, though, the cost is expressed in one or all of four ways:[58]

1. Annual cost of the benefit for all employees.
2. Cost per employee per year.
3. Percent of payroll.
4. Cents per hour.

Annual cost is the total sum expended by the company over a year on a given benefit or service. It usually excludes administrative costs.[59] Although many companies maintain costly, elaborate accounting systems these administrative costs have been absorbed by the company. However, with fringe costs mounting steadily each year it would be surprising if companies did not begin to include administrative expenses in the total cost of the benefit package.

Some companies can easily produce figures on large costly items such as pensions, group insurance, vacations,

---

[58]Stieglitz, op. cit., p. 7.

[59]Ibid.

holidays, and legally required payments--but few can make available cost records on rest periods or wash-up time. To get the costs of the smaller fringes, a company may have to resort to the use of a computer or use some mathematical formula.

Often many companies are hard pressed to arrive at cost figures for some of the larger fringes, such as vacation and holidays, because these figures are not maintained as separate bookkeeping entries. In such instances some formula must be devised that will produce the desired costs.

The cost per employee per year is obtained in one of two ways:[60]

1. Dividing the total cost of the benefit by the average number of employees for the year.
2. Dividing the total cost of the benefit by the number of employees covered by the particular program.

If a company desires to know how much it would cost to cover an additional participant, the second method would be used. If the cost per employee of the over-all benefit package is desired, then the first method is used. The validity of either figure rests upon the unfirm foundation of how to cost a fringe and what is a fringe. Any problem in the area of fringe benefits continually returns to these two basic questions. With such a shaky foundation it is little wonder that few in industry have a firm grasp of fringe benefit costs.

---

[60]*Ibid.*

Johnson and Johnson--A Case Study

A case study of the Johnson and Johnson Company of New Brunswick, New Jersey, illustrates the problems of obtaining fringe computations.

Johnson and Johnson had long followed certain practices designed to make it a better place in which to work. Some practices were initiated by management, some were the result of collective bargaining, and some were required by law. They all had one thing in common, they all cost money.

In 1947, Johnson and Johnson determined to compute the cost of its entire wage package. The company anticipated that such cost information might have an impact on the employees, would be a great help at the bargaining table, and might provide management with a valuable control tool in departmental cost analysis.

All of Johnson and Johnson's fringe cost analyses were in terms of hourly-paid employees only. Based on this, three guides were used in selecting fringe practices:

1. The cost of the practice, or a definitive portion of that cost, must be definitely assignable to hourly employees.
2. The cost of the practice must be clearly measurable.
3. The cost of the practice must, in effect, increase straight-time hourly labor costs for production hours worked.

To Johnson and Johnson, any payment, benefit, or service that raises the straight-time labor costs is a fringe. In 1947, the company felt that the following practices met all three

criteria:

1. Overtime premiums.
2. Average earnings allowance.
3. Vacations and holidays.
4. Pensions and group insurance.
5. Separation allowance.
6. Workmen's compensation, unemployment compensation taxes, and social security taxes.
7. Service awards.
8. Cost of uniforms.

Some items previously discussed and determined by some companies to be fringes were excluded by Johnson and Johnson. As an example, costs of medical services and recreational programs, grievance pay, and "call-in" guarantees were excluded, primarily because it was not easy to isolate the exact costs of these fringes.

In computing the cost of the fringes, Johnson and Johnson thought to express its fringe expenditures in figures that would be meaningful to employees. Therefore, to make it meaningful to the employees, the costs were expressed in terms of cents per hour. This cents per hour is then related to the employees hourly rate. To simplify understanding, only one over-all figure was published for employees, the costs were not broken down to show how much was vacation cost, holiday cost, or any other single benefit cost.

For management's use, Johnson and Johnson computed the cost of each item, as well as the total cost of the entire package. Here the cents-per-hour figure shows the company its actual fringe costs for a productive hour of work. Combined with base rate, it shows the cost of the wage package.

Johnson and Johnson found it difficult to compute the costs of fringes for salaries personnel. Hourly employees had a convenient base, their hourly rates, from which the fringe costs could be projected, and these projections have some meaning. Such a comparison with hourly rates for salaried employees becomes meaningless. The only costs figure that might have any significance for salaried employees or management personnel is a "cost per employee per year."[61] An interesting problem might be posed if all of the employees became salaried. In such a case the hourly based fringe cost would become meaningless for all employee groups.

Comparing Costs

An internal analysis of fringe costs is often useful to a company and is frequently its primary reason for computing them. Ofttimes a company may be interested in comparing its cost vis-a-vis another company in the industry. It may be interested in how it "compares." Such information might be valuable to the company in preparing data for union negotiations; it may find such comparison valuable when it analyzes its own fringe benefits.

To obtain data on which to base comparisons some companies seek cost figures from other individual companies. Such comparisons may be pointless because of the twin questions: "What is a fringe?" and "How is it costed?" One method which

---

[61] *Ibid.*, pp. 20-23.

minimizes these two difficulties is the survey. Often the results of such surveys have only a surface similarity.[62]

One of the most complete surveys undertaken in the United States is one conducted by the Economic Research Department of the Chamber of Commerce. The most recent survey[63] produced the summary of findings shown in figure 3. This survey was started in 1947, when the Chamber of Commerce noted the scarcity of statistical information regarding "the scope and nature of fringe benefits."[64] To insure that compatible information would be used, the Chamber designed a questionnaire which in 1961, was sent to a total of 2774 firms. The questionnaire was sent to a cross section of companies which included large- and medium-sized public utilities, insurance companies, wholesale and retail trade firms, and firms which had reported in the Chamber's 1959 survey. The questionnaire used, is shown in Appendix III.

The Chamber decided what it felt were properly includable as fringe benefits and then separated them into four or five categories.[65] A company, utilizing this questionnaire, can compile its own data and can determine how its fringes compare with others in its industry.

---

[62] Ibid., p. 13.

[63] Fringe Benefits 1961, op. cit.

[64] Ibid.

[65] See Appendix III.

FIGURE 3

CHAMBER OF COMMERCE SURVEY OF FRINGE BENEFITS, 1961
SUMMARY OF FINDINGS

1. Fringe payments vary widely among the 1,120 reporting companies, ranging from less than 8% to over 70% of payroll.

2. The average payment in 1961 was 24.9% of payroll, 61.6¢ per payroll hour, or $1,254 per year per employee.

3. Industry payments ranged from 19.3% for textile products and apparel to 33.5% for banks, finance and trust companies.

4. Highest payments were made in the Northeast, followed by the Western, the East North Central, and the Southeast regions.

5. Larger firms tended to pay higher fringe benefits than smaller firms.

6. Payments for pensions were reported by 86% of the companies, with pension payments in these companies averaging 4.9% of payroll.

7. Ninety-eight percent of the companies reported payments for employee insurance programs, with payments averaging 2.8% of payroll.

8. Payrolls of reporting companies included 94.7% for straight-time, 2.5% for overtime premium pay, 0.4% for holiday premium pay, 0.5% for shift differential, 1.7% for earned incentive or production bonuses, and 0.2% for other payroll items.

9. Employee payroll deductions for fringe benefits included 2.7% for Old-Age, Survivors, and Disability Insurance; 0.1% for Railroad Retirement, state sickness insurance, and similar programs; 0.5% for pensions; and 1.2% for life, hospitalization, surgical, and other insurance.

10. Fringe payments for 91 identical companies increased from 14.6% in 1947 to 16.8% in 1949, 18.8% in 1951, 20.2% in 1953, 21.7% in 1955, 24.1% in 1957, 24.7% in 1959, to 26.4% in 1961.

11. When a worker is hired today, or a new wage contract is agreed upon, the wage rates established no longer measure the cost of hiring labor, and the number of hours actually worked no longer measure the number of hours for which the employer must pay.

Source: Chamber of Commerce of the United States of America, Fringe Benefits, 1961, A Report Prepared by the Economic Research Department (Washington, D. C.: Chamber of Commerce of the United States, 1962), p. 5.

[illegible]

[illegible]

[illegible]

1. [illegible]

2. [illegible]

3. [illegible]

4. [illegible]

5. [illegible]

6. [illegible]

7. [illegible]

8. [illegible]

9. [illegible]

10. [illegible]

11. [illegible]

[illegible]

The survey illustrated once more the major question in the area of non-wages; "What are fringe benefits?" Although the Chamber of Commerce categorized fringes it went on to say,

> There are wide differences of opinion regarding just what constitutes fringe benefits, and how they should be computed. Some do not consider workmen's compensation, suggestion awards, and other items a fringe benefit. Others regard shift differentials, overtime premium pay, and other payroll items as fringe benefits. Some do not regard total payroll as the correct base in computing fringe benefits, but would use straight-time pay for time actually worked.
>
> Differences of opinion regarding what constitutes fringe benefits and how they should be computed indicate the need for a generally accepted definition of fringe benefits, and for a uniform method of comparing fringe benefits with employee compensation.[66]

Recent Costs of Fringes

Notwithstanding the wide disagreements on what is or is not a fringe and the difficulties encountered in costing fringes, two things stand out--fringes exist and they cost the employer a lot of money. When the dollar cost is considered in conjunction with the rate at which these costs have grown during the last twenty years the full importance and effect of these fringes in the labor market can be appreciated.

In 1961, as indicated in the summary of the Chamber of Commerce findings,[67] fringe payments averaged 24.9% of payroll for all companies. Manufacturing companies paid 23.6%, while the non-manufacturing companied paid 27.1%. There were extremes; four companies surveyed, paid less than 8% of payroll

---

[66]*Ibid.*, p. 25. [67]*Supra*, p. 47.

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

for fringes, while at the other extreme, were two companies with fringe payments over 70% of payroll. Translated into dollars per year per employee, seven companies paid under $300 while seven paid over $3000 to each employee for fringe benefits.[68]

The Chamber's survey indicated that total fringe payments as dollars per year per employee was $1254 for all industries. The problem of excluding and including certain items as fringes may change this amount. Figure 4, shows that the total average payroll was $5036. However, if the computation base is changed to "straight-time pay for time worked" or $4256, the $1254 in fringe benefits averages 29.5%.

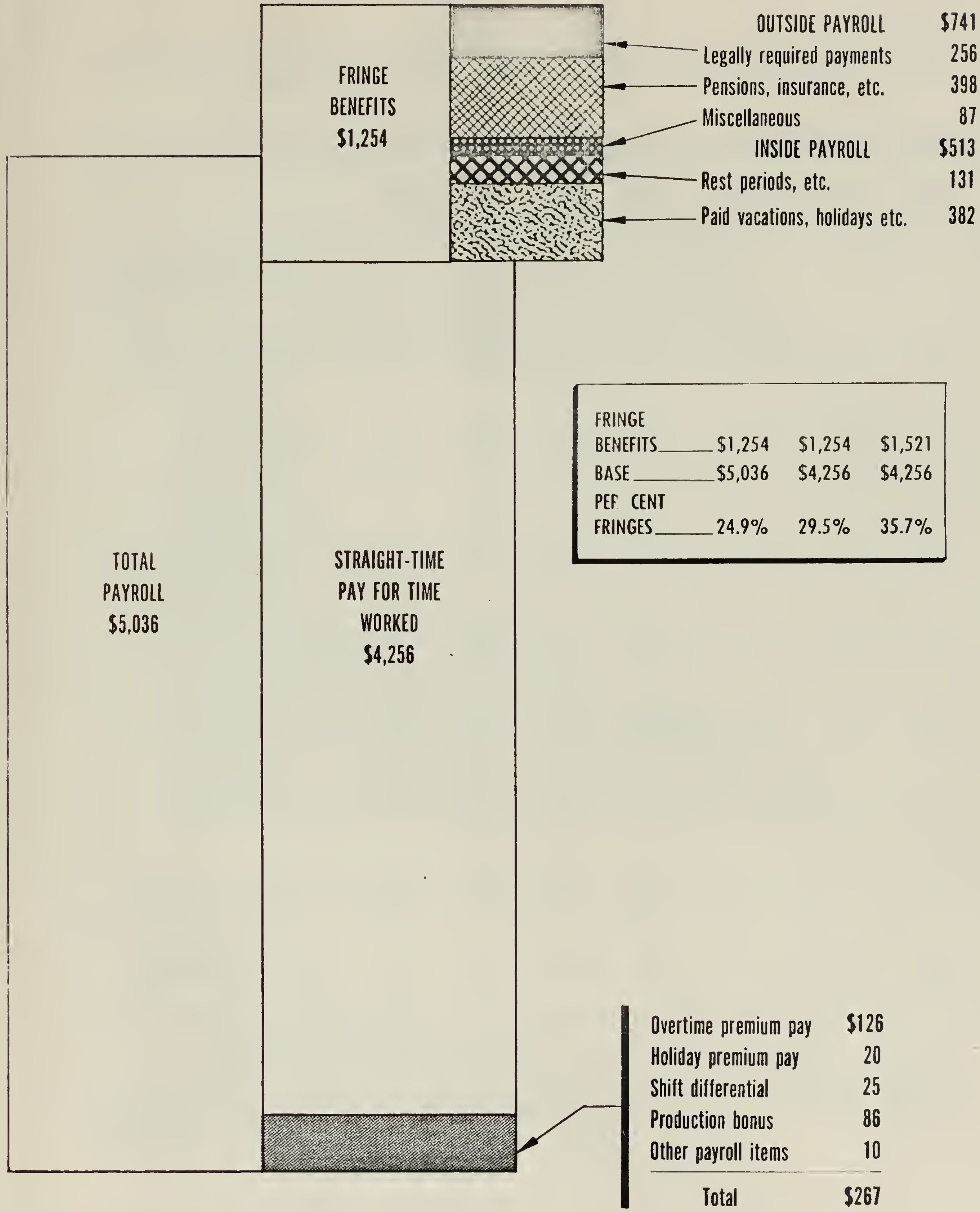
If overtime and holiday premium pay, shift differential, production bonus, and other miscellaneous payroll items are considered as fringe benefits, they would total $1521, and compared with the straight-time pay for time worked of $4256, the fringe benefits percentage becomes 35.7%.

Comparisons of data collected in 1947, with that collected in 1961, illustrates the growth of fringe benefits. Table 1 and Figure 5 show the changes for 91 identical companies surveyed by the Chamber of Commerce in 1947, and in the intervening years up to 1961. In that period the cost of pensions and other agreed upon payments more than doubled, while the costs of payments for time not worked almost doubled. These

---

[68] *Ibid.*, pp. 6-9.

FIGURE 4 **Annual Fringe Benefits and Earnings per Employee, 1961**



Source; Chamber of Commerce of the United States of America, Fringe Benefits, 1961, A Report Prepared by the Economic Research Department (Washington, D. C.: Chamber of Commerce of the United States, 1962), p. 26.

TABLE 1

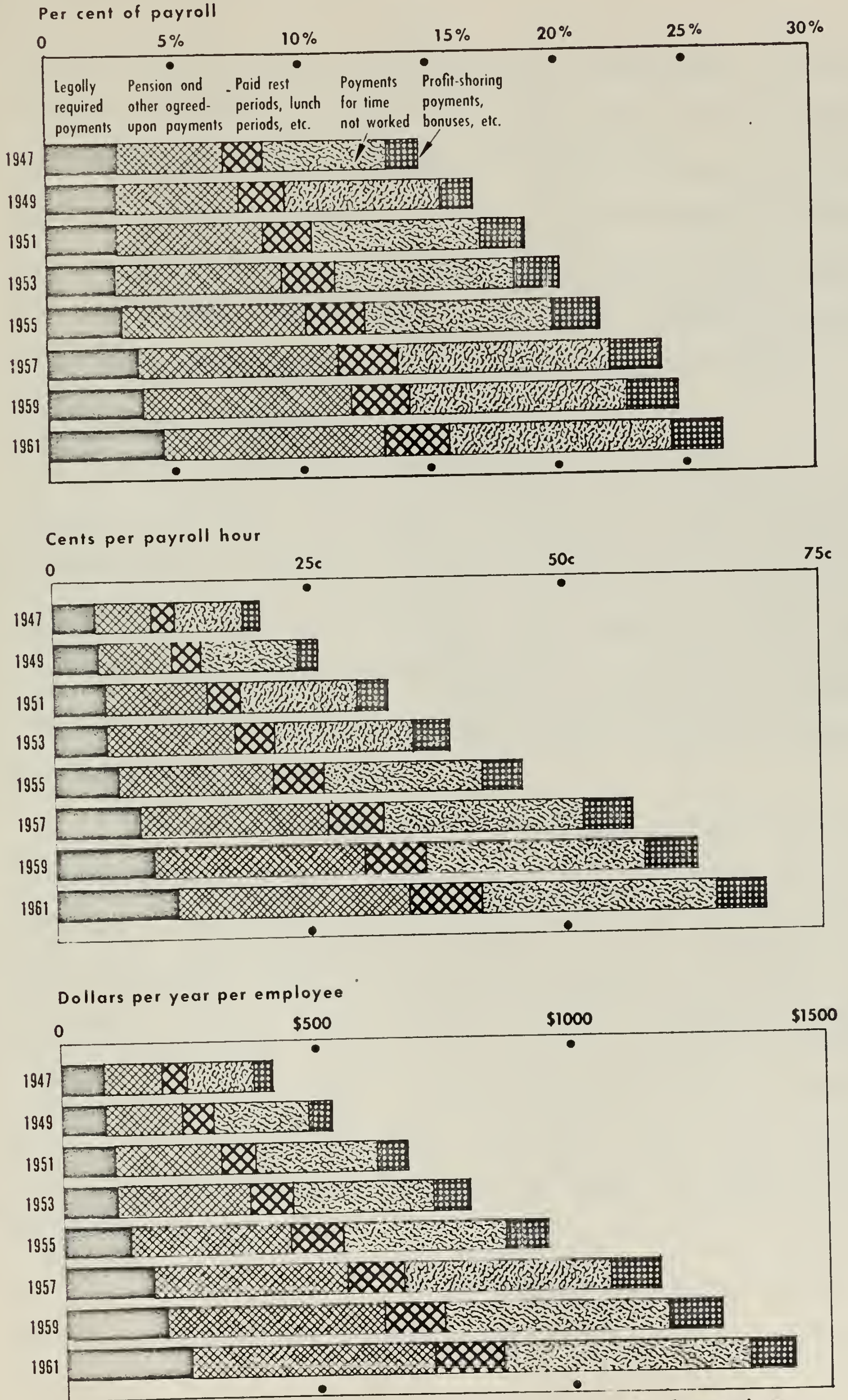
COMPARISON OF 1947, 1949, 1951, 1953, 1955, 1957, 1959 AND 1961 FRINGE PAYMENTS FOR 91 IDENTICAL COMPANIES

Item	1947	1949	1951	1953	1955	1957	1959	1961
<u>All industries (91)</u>								
1. As % of payroll, total	14.6	16.8	18.8	20.2	21.7	24.1	24.7	26.4
a. Legally required payments* . .	2.9	2.8	2.9	2.7	3.0	3.6	3.8	4.5
b. Pensions and other agreed upons*. . . .	4.1	4.8	5.7	6.6	7.2	7.8	8.1	8.7
c. Paid Rest Periods, lunch periods, etc.	1.6	1.8	1.9	2.0	2.3	2.4	2.3	2.5
d. Payments for time not worked . . .	4.8	6.1	6.6	7.1	7.3	8.3	8.5	8.8
e. Profit-sharing payments, etc.	1.2	1.3	1.7	1.8	1.9	2.0	2.0	1.9
2. As cents per payroll hour . .	20.2	26.0	32.9	38.8	45.8	56.6	62.9	69.6
3. As dollars per year per employee . . .	413	528	680	797	951	1170	1290	1428

*Employer's share only

Source: Chamber of Commerce of the United States of America. Fringe Benefits 1961, A Report Prepared by the Economic Research Division (Washington, D. C.: Chamber of Commerce of the United States, 1962), p. 28.

FIGURE 5 **Comparison of 1947, 1949, 1951, 1953, 1955, 1957, 1959 and 1961 Fringe Payments for 91 Identical Companies**



Source: Chamber of Commerce of the United States of America, Fringe Benefits 1961, A Report Prepared by the Economic Research Department (Washington, D.C.:Chamber of Commerce, 1962). p. 29.

two particular types of benefits are negotiable. They also show the largest gains as far as the costs to the employers is concerned. This is significant because here is a potential area in which employers may be able to exercise some restraint and perhaps slow down the advancing costs of doing business. If the largest increase was in the area of legally required payments then management would not be able to control the cost to any great extent.

Employer fringe benefit costs are estimated at $58.5 billion for 1961 as indicated in Table 2. Total fringe benefits in 1929 can be estimated at $1.5 billion, or 3% of that year's $50 billion wages and salaries. There were no Old-Age and Survivor's Insurance or Unemployment Compensation programs. The only legally required payments were Workmen's Compensation and Government Retirement.

Agreed upon programs in 1929, are estimated at 0.4%, including small amounts for private pension and insurance programs. Time paid for, but not worked, is estimated at 0.7%. In 1929, vacation and paid holidays were usually limited to office workers, with one-week vacations common. The social legislation of the 1930's, and the rise in power of labor unions, have changed all that. In 1961, "time not worked payments," rose to 7.1% from 0.7% in 1929, a 1000% rise in twenty-two years.

In 1961, the average payroll of all companies surveyed was composed of 94.7% payments for straight time, 2.5% premium

TABLE 2

GROWTH OF FRINGE PAYMENTS, 1929 TO 1961

Type of Payment	1929	1961
	(Per cent of wages)	
1. Legally required	0.8%	5.1%
Old-Age and Survivors Insurance . .	0	2.1
Unemployment Compensation	0	1.1
Workmen's Compensation	0.6	0.7
Government employee's retirement . .	0.2	1.0
Other.	0	0.2
2. Agreed-upon	0.4	4.6
Pensions	0.2	2.6
Insurance	0.1	1.7
Other	0.1	0.3
3. Rest Periods	1.0	3.2
4. Time not Worked	0.7	7.1
Vacations	0.3	3.8
Holidays	0.3	2.4
Sick Leave	0.1	0.8
Other	0	0.1
5. Bonuses, profit-sharing, etc.	0.1	1.0
Total fringe payments	3.0%	21.0%
	(Billion dollars)	
Wages and salaries	$50.0	$278.8
Total fringe payments	1.5	58.5

Source: Chamber of Commerce of the United States of America, Fringe Benefits 1961, A Report Prepared by the Economic Research Department (Washington, D. C.: Chamber of Commerce of the United States, 1962), p. 31.

pay for overtime, 0.4% holiday premium pay, 0.5% shift differential, 1.7% earned incentive or production bonus, and 0.2% for other items, chiefly cost-of-living payments.[69]

Not all fringe benefits are paid by the employer. In 1961, deductions from employee pay for fringe benefits totaled 4.5%, including 2.7% for Old-Age, Survivors and Disability Insurance, 0.5% for pension plan premiums and contributions, and 1.2% for life, sickness, accident, surgical, medical care, and hospitalization insurance. These deductions averaged $227 per year per employee. This $227 can be compared to the $1254 cost per year per employee which the employer contributes.[70]

All components of labor costs have increased since 1948, with salaries and fringes increasing faster than wages. Figure 6, shows that in 1948, wages constituted 72% of the total wage cost while salaries represented 25% and fringes 3%. In 1961, wages dropped to 57% of the total cost, whereas salaries increased to the point where it constitutes 32%, and fringes constitute 11% of the total.[71] Wages constitute a smaller percentage of the total cost of labor, not because wages have not increased, but because there are fewer wage earners vis-a-vis salaried employees in the labor force. In 1952, wage earners made up 75.5% of the total of all employees whereas salaried employees made up but 24.5%. In 1961,

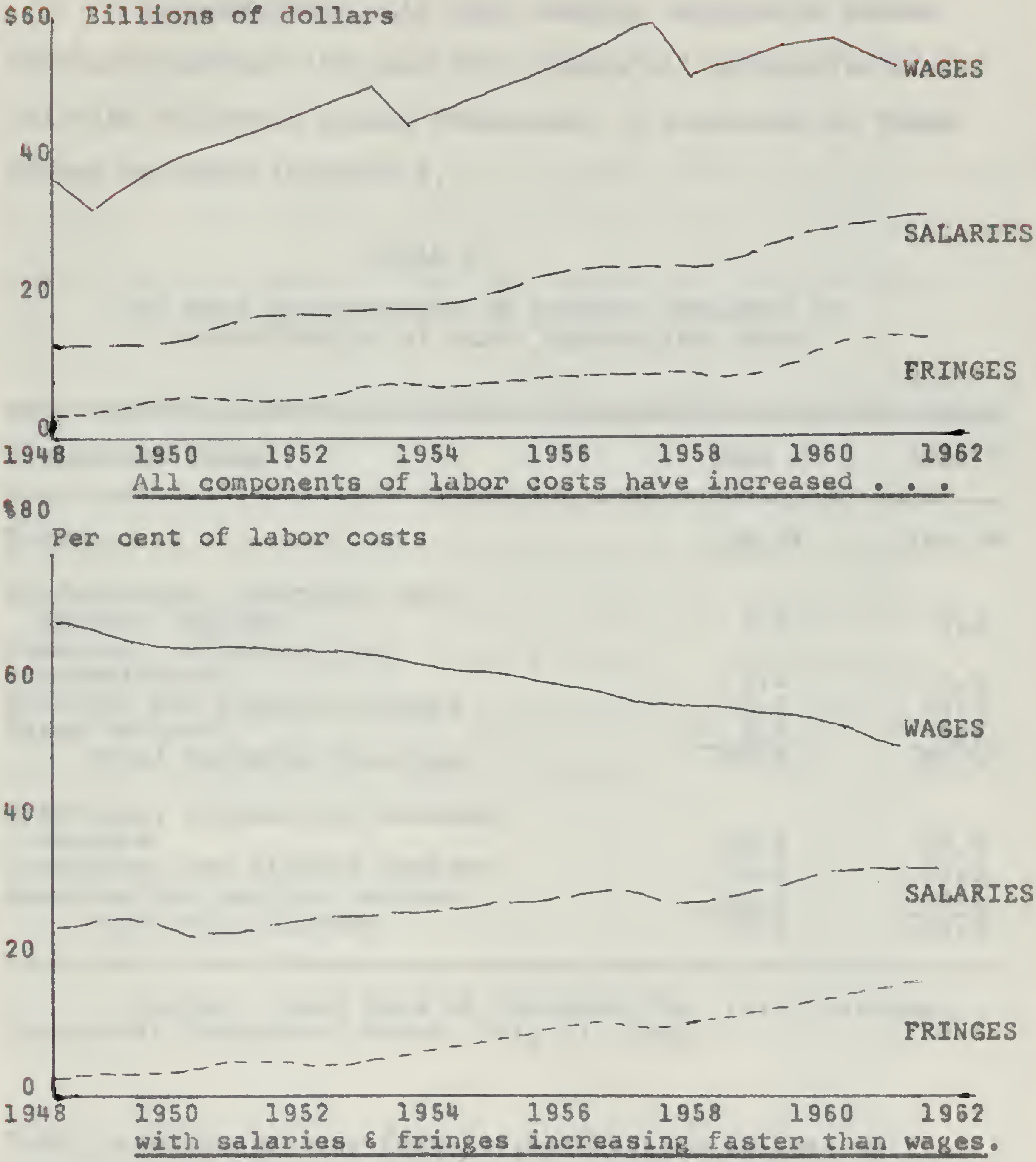
---

[69] *Ibid.*, p. 25. [70] *Ibid.*, p. 24.

[71] National Industrial Conference Board, Inc., *Labor Costs and Employment in Manufacturing*, Road Maps of Industry No. 1385, The Conference Board (New York: July 13, 1962).

FIGURE 6

LABOR COSTS IN MANUFACTURING



Source: National Industrial Conference Board, Inc., Labor Costs and Employment in Manufacturing, Road Maps of Industry No. 1385, The Conference Board. New York: July 13, 1962.

salaried employees constituted 31.4% of all employees while wage earners dropped to 68.6% of the total.[72]

By occupation, all wage earning categories showed decreases between 1952 and 1961, while all categories of salaried employees showed increases. A breakdown of these groups is shown in Table 3.

TABLE 3

PER CENT DISTRIBUTION OF PERSONS EMPLOYED IN MANUFACTURING BY MAJOR OCCUPATION GROUP

Occupation Group	1952	1961
Total	100.0%	100.0%
Professional, technical and kindred workers	5.4	8.8
Managers, officials, and proprietors	5.2	6.5
Clerical and kindred workers	11.5	12.4
Sales workers	2.4	3.7
Total Salaried Employees	24.5	31.4
Craftsmen, foremen and kindred workers	19.8	18.8
Operatives and kindred workers	45.5	42.2
Laborers and service workers	10.2	7.6
Total Wage Earners	75.5	68.6

Source: Road Maps of Industry, No. 1385, National Industrial Conference Board, July 13, 1962.

Total labor costs rose from $48,604,000,000 in 1948 to $97,000,000,000 in 1961. A comparison of the costs of wages, salaries, and fringes shows that wages increased $21,761,000,000

[72] Ibid.

from $34,739,000,000 in 1948, to $56,500,000,000 in 1961; salaries increased $19,480,000,000 from $11,720,000,000 in 1948 to $31,200,000,000 in 1961; and fringes increased $7,155,000,000 from $2,145,000,000 in 1948 to $9,300,000,000 in 1961.[73] Thus fringe benefits have increased 430% since 1948 while salaries show a 260% increase versus a 160% increase in wages. This clearly indicates that the fringe costs have increased dramatically under the impetus of labor demands at the bargaining table.

The Chamber of Commerce Survey emphasized the costs of fringe benefits and the rate at which the costs have escalated in the past fourteen years. Supposedly, these costs are transferrable into dollars in the workers hands. To the employer they certainly represent a cost and thereby lessen a company's net income or taxable income. This reduction in taxable income has become appreciable and has created problems in the area of public finance.

---

[73] Ibid.

[illegible]

[illegible]

[illegible]

CHAPTER III

NON-WAGES--THEIR EFFECT ON PUBLIC FINANCE[1]

Non-wage compensation has created problems for the employer and to a lesser extent for the unions. There are other areas in which these benefits and services have caused an upheaval in the country's economic life--one such section is public finance. Little is heard or read about the effect of fringes in this area. The reasons for this dirth of information are difficult to determine. The subject contains a potential source of public agitation, and for this reason perhaps, the politicians would prefer to let the subject remain dormant.

The list of fringe benefits seems ever to grow so that any list of "new" fringe benefits compiled at any one time would soon be out of date. A consideration peculiar to the tax aspect is the change in the percentage of cost of those fringe benefits borne by the employer; generally contributions by employers are not taxed while contributions from employee wages are considered as coming from taxable income.

The future total amount of fringe benefits, changes in the quality or form of existing fringe benefits, and changes

---

[1]This chapter is based primarily on the ideas contained in Macaulay, op. cit., pp. 19-53.

in the number of workers and dependents covered by fringe benefits will all increase fringe benefit expenditures.

The guaranteed annual wage has spread from a few firms to a few industries. This will increase fringe costs as coverage is extended to more and more employees. A shift toward the "vesting" of pension rights, is an example of existing fringe benefits which have increased in quality and cost. Vesting gives the worker a stronger claim on money contributed to the pension plan and therefore increases the cost of the plan. Vesting is important for another reason--it ties the worker closer to the job and to the company, making him less mobile. For each worker who gains a vested interest in a company there is less mobility in the country's labor force.

Some fringe benefits have been called tax preferred, but this implies some concept of income which would include them as taxable income. The economic definition of income most closely corresponding to currently accepted income tax policy includes the general class of fringe benefits in taxable income. However, taxation depends on legislative enactments together with administrative regulation and court interpretations.

Congress makes exceptions for income which is administratively difficult to tax, and in those cases where it wishes to bring about social reform. The Treasury Department has not been successful in defining taxable income in every

case where fringe benefits were involved. The courts also have had difficulty in arriving at a single, logical concept of income subject to taxation.

Macaulay states the income-fringe benefit-taxation problem this way:

> The tax treatment of fringe benefits is based fundamentally on the laws of Congress, the regulations and rulings of the Treasury, and the decisions of the courts. These three bodies have decided on the taxation of individual fringe benefits as they arise, and these decisions, collectively, form the foundation for present day fringe benefit tax treatment.[2]

The Social Security Act of 1935, made provisions for non-wage benefits to flow to employees, and later rulings by the Internal Revenue Service have held that neither payment by the employer on behalf of the employees, nor payments of benefits from the funds to employees, would be considered as income subject to tax.

Certain employer contributions to pension, stock-bonus, or profit-sharing plans may be given favorable tax treatment.

In 1950, the Treasury Department undertook to tighten up on the taxability of certain benefits, and this shift in policy may have been the cause of some of the increased interest in fringe benefits.

In 1954, a new Internal Revenue Code was adopted which called for a more "common sense" and less inclusive concept of

---

[2]Macaulay, op. cit., p. 23.

[illegible]

[illegible]

> [illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

income. The philosophy which evolved from this new code was one which resulted in a more liberal view of fringe benefits.

Much non-wage compensation has escaped federal income taxation. The types of fringe benefits which enjoy tax favor fall into one of three forms:

1. When tax is deferred, as in employer payments into employee pension funds and will be taxed at some later time.
2. When tax is not levied at all on:
    a. certain payments made in kind to employees, such as medical services, free meals, recreational facilities, group life insurance, or
    b. certain payments into funds from which tax-free payments will be made to the employee upon certain contingencies, such as employer's contributions to unemployment compensation and workmen's compensation, and
    c. certain payments to the employee when he is ill.
3. When tax is levied at the capital gains rate, such as in lump-sum benefits received from qualified profit-sharing plans.

The Chamber of Commerce's 1961 survey found that fringe benefits averaged about 61.6 cents per employee per payroll hour. Of the benefits listed, pension plan premiums were 10.4 cents per payroll hour. Other fringes which are generally tax free, such as the employers share of legally required payments, insurance premiums, discounts on goods and services, and miscellaneous payments, averaged 20.3 cents per payroll hour. Employer contributions to profit-sharing plans equalled 2.0 cents per payroll hour but not all of this was tax exempt.[3] The total cost of these tax preferred fringe

---

[3] Fringe Benefits 1961, op. cit., p. 14.

benefits is 32.7 cents per payroll hour per employee which leaves a balance of 28.9 cents per payroll hour to be accounted for. About 18.8 cents of this amount was in the form of pay for time not worked, which represents an increase in non-taxable leisure at the same pay, and about 3.0 cents per payroll hour was for fringes which were presumably taxed, such as Christmas bonuses, suggestion awards, and similar payments. Also, 6.4 cents per payroll hour was paid by the employer for wash-up time, rest periods, and similar periods of non-productive times.[4]

The foregoing figures apply only to hourly rated employees and salaried employees whose pay varies with time worked. Besides these groups, executive and supervisory personnel also receive tax-preferred benefits such as expense accounts, use of company property, and restricted stock options. The importance of the deferred compensation or restricted stock option may be inferred from the fact that of the 1,128 companies listed on the New York Stock Exchange in 1961, 63% or 711 had adopted restricted stock option plans.[5]

In 1961, 26.4% of payroll costs for fringe benefits was the equivalent of 61.6 cents per hour per employee and the total figure for wages and salaries was $278.8 billion.[7]

---

[4] Ibid.

[5] George E. Lent and John A. Menge, "The Importance of Restricted Stock Options in Executive Compensation," Management Record, XXIV (June, 1962), p. 9.

[6] Fringe Benefits 1961, op. cit., p. 26. [7] Ibid., p. 30.

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

If about 32.7 cents per payroll hour per employee or 13.2% of payroll costs comes as a tax-preferred fringe benefit, then the tax base has been reduced by $36.7 billion. This figure would not include tax-preferred fringe benefits received by Government employees, nor prerequisites of office received by executives. Thus there is a sizeable amount of potentially taxable income at stake.

One of the principal reasons advanced for the exclusion of fringe benefits from income taxation is the contention that they are conditions of employment rather than compensation for employment. This same reasoning can be found as the answer to why an employee does not produce more as a result of receiving these fringe benefits. Conditions of employment seem to include expenditures by the employer designed primarily to benefit himself. Compensation, on the other hand, is paid to yield benefits to the employee. Public opinion calls for personal income taxation to apply to compensation but not to conditions of work. The line between the two is extremely hazy. The question of what is a fringe benefit can be asked once more. Every area investigated seems to unearth this same query.

It is difficult to classify as income, outlays by the employer in forms other than cash wages. Perhaps the tax collector will have to be content with assessing only money income because of the administrative costs of taxing other forms of income. It appears that "income paid . . . not in

[illegible]

[illegible]

[illegible]

cash wages, is quite difficult to tax because it silently merges into conditions of employment."[8]

What are some of the problems arising from taxation of fringe benefits? Initially it is the administrative difficulty. Because of this problem the cost of collecting the tax on a fringe might exceed the amount of tax collected. Such a situation might argue for non-imposition of the tax.

A second problem concerns the uncertainty of the value of the fringe. Such a benefit might be one which has no market value nor cost of production. Thus, how shall a week's vacation with pay be evaluated. Perhaps it can be assumed that no tax problem exists because the pay received for the vacation has already been taxed. But note it is taxed at the same rate as the money received for a week of work which yields no additional leisure income.

Public antipathy may constitute a hurdle to the taxation of certain benefits. Also, a social goal might call for favorable treatment of some fringe benefits.

One or more of the above difficulties could be cited as applying to every non-cash wage benefitting the employee. When these difficulties are coupled to the political popularity which springs from a failure to tax, the result is a strong predisposition toward tax-preference for fringe benefits.

There is another side to this problem; the side which

---

[8] Macaulay, op. cit., p. 31.

concerns the difficulties which might arise from <u>excluding</u> these payments from taxable income.

The first problem is one of equity in taxation. For the income tax, this would mean that simularly situated people with equal incomes would pay the same tax. However fringe benefits introduce a new dimension, since taxation then depends upon the <u>form</u> in which income is received as well as the amount received.

A second meaning attached to the burden of equity calls for an equitable distribution of the burden of taxes among different income groups. Congress in setting tax rates determines what proportion of the tax burden should be borne by each income group, and in this particular case had determined that the rates should be progressive. However, when fringe benefits appear in differing amounts for different income groups, the stated allocation of the tax burden is distorted. Furthermore, not all individuals within any income group receive any one fringe benefit, or even the same total amount of fringe benefits, and so the allocation of the tax burden is changed even more.

Taxpayers may resist taxation when they feel that they are being taxed on fringe benefits which they strongly consider not to be income. They may react even more strongly if they feel that they are being treated unfairly relative to others in respect to receiving or not receiving a tax favor which has been given to some other group.

A second problem arises out of the fact that fringe benefits constitute income and yet are exempt from taxation in many instances. Thus the tax base is reduced. If a given amount of revenue must be raised, the elimination of some items from the tax base results in higher rates of taxation on the narrower tax base. Thus, fringe benefits affect revenue, the tax base, and the tax rate.

Fringe benefits are normally given as a form of salary increase rather than merely as a change in the form of salary paid. Assuming revenue requirements are the same before and after the fringes are granted, tax rates will remain the same. If this income increase had been in the form of wages rather than fringes, the wages would be taxable and the tax rates could be lowered, and still produce the same amount of tax revenue.

A perpetual motion machine can be generated through fringe benefits. Assuming a constant revenue is required, certain persons, in attempting to avoid taxes, seeks a tax shelter in the form of a fringe benefit. These persons are successful but they also produce a marginal tax rate rise. As the tax rate rises in an attempt to maintain the revenue constant, more persons attempt to use the tax shelter. As they are successful in getting into the shelter the tax rate climbs still higher forcing more people to seek shelter, and so it goes. The absurd conclusion to this spiral is every employee receives his entire compensation in the form of

fringes and there is no income left to tax.

A third problem caused by fringe benefits concerns the taxation by units of government other than the Federal Government. The problems discussed relative to the taxation at the federal level also exist at the state and local level. Since these taxes are levied under different laws, and since the role of fringe benefits as a constituent of wage income is subject to wide variations of opinion, the amount of wages subject to tax varies among taxing units. This leads to difficulty for both the taxpayer and the tax collector.

CHAPTER IV

RETIREMENT FRINGES AND THEIR EFFECTS

Taxes have a direct impact upon the economy of the country. The tax system which is instituted to raise revenue should have, as one of its attributes, a lack of interference with the normal functioning of the economic system. Economic effects will follow not only from the imposition of the tax, but also from any exemption from the tax. To the extent that fringe benefits are considered as income and receive tax-preference, they should be considered in the light of their effect upon the economic system.

These effects can be found exerting an influence on the allocation of resources, the mobility of labor, cyclical stability, and other related areas of the economy.[1] Fringe benefits are often considered as though they were a homogeneous mass, producing an effect on public finance and economic activity. However, fringes vary widely, as has been noted, and some of them may produce widely divergent and in some instances opposite effects. An examination of almost anyone of the categories of non-wages illustrates this point. For example, retirement, and other closely allied fringes illustrate the effect they have upon the economy and in particular on the labor

[1] Cf. Macaulay, op. cit., pp. 54-85.

market.

By far the largest group of fringe benefits in terms of dollars spent is the group which provides for payments at or after retirement. The types and variety of these benefits are infinite. Generally they can be considered to fall into one of three categories; pension plans, profit sharing plans, or stock option plans.

Pension Plans

In 1961, pension plan premiums and pension payments not covered by insurance type plans represented a cost of $211 per year per employee according to a Chamber of Commerce survey.[2] When this cost was combined with the employer's share of contributions to Old Age, Survivors and Disability Insurance, $134 per year per employee, it is evident how much retirement benefits cost the employer.[3] In comparison military retirement costs in fiscal year 1959 were estimated at $1,497,011,755 on an accrual basis compared to the cost of basic pay for the same year of $6,296,573,044. In addition to basic pay only military quarters allowances costs were larger than retirement costs in fiscal year 1959.[4] The effect of pension plans on the economy should be obvious.

---

[2] Fringe Benefits 1961, op. cit., p. 15.

[3] Ibid.

[4] "Classification and Costs of Military Compensation," Precept to the Defense Study of Military Compensation Board, 1962. (Mimeographed).

The first private pension plan in the United States is said to have been established by the American Express Company in 1875.[5] A 1925 study of pension plans showed 245 plans in operation, with 215 of these plans reporting 2.8 million employees,[6] but the coverage offered was of uncertain quality. Financing was largely on a hand to mouth appropriation out of current capital to meet current demands. Most benefits were parcelled out at the discretion of the employer and could be revoked at any time. Most of the rise in the implementation of pension plans has occurred during the past twenty years. In 1940, 1,965 plans covered 3.7 million workers.[7] In 1956, the number of workers covered increased to over 14,000,000 in 23,000 plus plans.[8]

The increase in the number of workers covered and the number of plans is not the only evidence of the sustained growth in private pension plans. Private fund assets is another signpost which indicates this growth; such assets quadrupled between 1950 and 1960. At the end of 1960, reserves

---

[5] Yoder, op. cit., p. 681.

[6] National Industrial Conference Board, Inc., Industrial Pensions in the United States, p. 6.

[7] Robert M. Ball, Pensions in the United States (A Study Prepared for the Joint Committee on Economic Report), p. 11, cited by Macaulay, op. cit., p. 91.

[8] Prentice-Hall, Pension and Profit Sharing, par. 1012, cited by Macaulay, op. cit., p. 91.

held by private pension funds approached $50 billion; they had totaled somewhat less than $12 billion ten years earlier.[9] During the same period, public pension funds increased from about $26 billion to $56 billion.[10]

From these funds, benefits are being paid to retired workers, but these are not yet large, relative to payments into the funds, because the newness of most plans has led to a low ratio of retired workers to covered workers. Secondly, those who are retired generally receive smaller than-normal pensions because of the brief period of contributions in their names. Eventually benefit payments may equal or exceed contributions.

The contributions to a pension fund is not taxable income to the employee if it is made by the employer to a qualified plan, or if it is made to a non-qualified plan under which the employee's interest is forfeitable.[11] The Internal Revenue Service has set up the general requirements under which a pension plan is considered "qualified."[12]

The benefit paid to an employee from a pension fund

---

[9] Miriam Kerpen and Mitchell Meyer, "The Growth in Corporate Pension Funds," Management Record, XXIII (July-August, 1961), p. 18.

[10] Ibid.

[11] Macaulay, op. cit., p. 94.

[12] See Appendix IV.

is not considered as income to him to the extent that it has already been taxed as income when paid in as premiums. It is considered a capital gain if paid in a lump sum; or if paid because of his death to his beneficiary or estate within one taxable year, up to a $5,000 limit. If the distribution is made in stock; the tax is levied only if and when the stock is sold.[13]

There is little doubt that a pension is a fringe benefit which enjoys a degree of tax-preference. If an employee received $100 in wages, the entire amount is taxable. In contrast, if the employer pays the employee $95 in cash and puts $5 into a pension fund, the employee pays income taxes on the $95 at the time he receives it, but not on the $5 put into the pension fund by the employer. This gives the employee a tax preference. If the employee receiving the $100 cash was to put $5 of that amount into an annuity, he would have been already taxed on the five dollars.

In addition to the employer contributions, the earnings of the pension trust fund escapes personal income taxation until distribution. The benefits, when distributed, then become taxable income to the recipients.

Thus income paid into the fund or earned by the fund is eventually taxed. However, the tax treatment gives a clear advantage to the non-contributing, qualified pension plan

---

[13] Internal Revenue Code of 1954 sec. 101(b)(2)(A), 402(a)(2), 403(a)(2) cited by Macaulay, op. cit., p. 95.

over privately financed retirement plans. The employer may take as a deduction the amounts paid into the plan; if these contributions are controlled by a trust fund, the earnings are not subject to income tax when earned; the employee pays no tax on either the contribution of the employer or the earnings of the pension fund until he actually receives them, usually after retirement. It is not surprising that this form of pension plan has grown rapidly.[14]

There are different kinds of pension plans and they produce different effects. The plans can be roughly divided into three categories: (1) the vested refundable savings pension plan, where the premium paid for the plan vests to the worker and will be returned to him at retirement, death, or some other stated event; (2) the vested non-refundable pension plan, which vests premium payments in the worker's name but which the worker receives only if he lives to retirement; and (3) the non-vested pension plan which calls for premium payments in the worker's name, but which the worker receives only if he remains in the employment of the contributing employer, and if he lives to retirement. Anyone of these can become "qualified" under the tax laws and so become eligible for favorable tax treatment. The non-vested pension plan is the most prominent today in terms of both workers covered and dollars spent.[15]

---

[14] Macaulay, op. cit., p. 97. [15] Ibid., p. 98.

[illegible]

[illegible]

[illegible]

Use of these plans narrows the tax base in any one year by the amount of premium paid and interest earned, less taxable benefits paid. Obviously, a person under a pension plan fringe benefit, can have tax-postponed money set aside for retirement, while an employee without such a plan, or a self-employed person, must finance his retirement out of post-tax income. It is evident that fringe benefits give tax-preferred treatment to those enjoying employment with a pension plan. These plans are participated in by management personnel and rank and file employees alike.

Pension plans give tax preference to savings and might be expected to channel resources in this direction. An increase in savings may cause a similar decrease in consumption, which will have an effect on the economy, provided the dollar amount involved is significant.

In addition to this shift from consumption to savings there may also be a shift in the control over these savings. It is possible that significant changes in investment patterns might arise. In fact the portfolio of corporate pension funds has undergone significant alterations between 1951 and 1960.

As has been indicated, the total assets of pension funds has grown from $12 billion in 1950 to $50 billion in 1960. The one stable portion of the portfolio has been corporate bond holdings. Increased investment in corporate bonds kept pace with the increase in total assets, with the result they have been the back bone of pension reserves, fluctuating

around 50%, throughout the decade.[16]

In contrast to corporate bonds, United States Government Securities plunged from 32% to 7% of the funds assets. Most of this decline has been offset by an increase in holdings of common stock from 12% of assets in 1950 to 33% in 1960. Preferred stock and mortgage bonds make up the remainder of the portfolio.[17]

One characteristic of these plans is their inflexibility. This may be an advantage to the individual who cannot develop the saving habit, because these funds usually cannot be touched until the employee retires. This unavailability is a disadvantage to the individual who needs funds to meet some emergency and finds he cannot obtain them. This forced savings attribute is typical of these pension plans.

Macaulay states that pension or retirement plans will have an effect on cyclical stability. First,the savings feature of these plans is a "desirable feature if inflation is the threat," but is "undesirable if the problem is deflation." Secondly, assuming pension premium payments are fixed amounts and do not have escalator provisions tied to wages then the "built in stabilizing effect of the income tax is . . . increased." Third, "outright efforts to achieve stability through changes in tax rates would be hindered . . . because of the smaller tax base."[18]

---

[17]<u>Ibid</u>., pp. 19-20. [18]Macaulay, <u>op. cit</u>., pp. 100-101.

Perhaps pension plans have their largest impact in the area of labor mobility. Certainly a pension plan is a fringe benefit which fits into a welfare concept of employment vis-a-vis the commodity concept which existed in the early part of the 20th century.

> Between a particular employer and employee, employment builds up a strengthening network of relationships, rights and benefits geared to length of service; these company ties . . . restrict the free flow of labor, causing it to congeal around individual firms. Workers become more and more tied to particular companies by non-priced attractions that are non-transferable.[19]

The restricting influence on the mobility of labor stems from the non-vesting provision of the plans. If the employee has a pension due him on retirement, but cannot expect to receive it unless he remains with the company until he retires, he will not be anxious to seek employment elsewhere. As the fund grows larger, and the employee gets closer to the day he will receive this money, the less willing he is to leave his present employer.

The pension plan, together with other fringe benefits, is "developing a single work-life attachment to a company, which tie extends into the period of retirement of the employee."[20]

The non-vested pension plan is the type which most seriously hampers the mobility of labor. This limitation can

---

[19] Lester, op. cit., p. 441.

[20] Ibid.

[illegible]

> [illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

be minimized by allowing the employee to take his pension rights with him when he changes employers. Less than 10% of existing plans provide for vesting.[21] In companies where vested plans exist, the employee usually contributes to the plan. There are few such plans in which the employer is the sole contributor.[22]

There is a trend toward vested plans of which there are two types, refundable and non-refundable.[23] In the refundable type a worker receives a certain amount of funds upon retirement, death, or some other event, such as leaving his present employer to work elsewhere. In the non-refundable type of plan the worker receives the benefits upon retirement but he is not required to maintain continued employment with the employer who grants the pension. The non-refundable vested plan creates some administrative problems when the worker changes employers. One system used to overcome this is to allow the employee to take his retirement credit with him to his new firm. Another method is to have the original employer retain the credit as a deferred charge in the former employee's name. The employee receives this deferred payment upon his eventual retirement.

One method of resolving this vesting problem provides for industry-wide or area wide plans which vest the employee's

---

[21] Yoder, *op. cit.*, p. 689.

[22] Macaulay, *op. cit.*, p. 103. [23] *Ibid.*, p. 112.

interest in the fund even though he moves from employer to employer. An example of this is the Toledo Area Pension Plan, in which the United Auto Workers and some 19 employers in the Toledo, Ohio area negotiated a joint pension fund. Employees carry their accumulated retirement credits from one participating firm to another.[24]

Based on the foregoing discussion, it is evident that pensions, a fringe benefit, have a profound effect in the area of public finance, cyclical stability, labor mobility, and other facets of this country's economy. Before considering a second type of benefit in this same area, profit-sharing plans, one more point regarding pension plans should be discussed.

Pension plans may effect capital mobility in addition to their effect on labor mobility. As an example, if workers are covered by a non-vested pension plan and have built up a sizeable equity in the fund, they not only cannot afford to leave the firm, but also cannot afford for the firm to go out of business. If this firm found itself in difficulty because its products were being undersold by foreign competition, managements pleas for tariff protection might be seconded by labor. Such conditions might increase pressure for inflexibility in the country's international trade policies.[25]

In summary it can be said that pension plans are

---

[24] Yoder, loc. cit.

[25] Macaulay, op. cit., p. 101.

encouraged through tax preference. The advantages of more retirement plans with higher benefits must be set off against some of the disadvantages of such plans. The increased benefit must be set against a smaller tax base, and a base which has a potential for further reduction as time goes by. The inequity in treatment of workers drawing the same income but in different capacities, and among workers drawing different incomes must be considered. Also, a decrease in the mobility of labor and capital is a possible consequence of increased benefits. Lastly, from the personal viewpoint of the employee, the savings plan with its inflexible characteristics must be weighed.

Profit-Sharing Plans

A second form of retirement benefits is the profit sharing plan. Such plans have been defined as any procedure under which an employer pays employees, in addition to regular pay, special, current or deferred sums, based on the prosperity of the business as a whole.[26]

Profit sharing plans are favorably regarded as methods of compensating employees, particularly in periods of expansion and prosperity. One of the earliest profit sharing plans was begun in 1891 by the South Metropolitan Gas Company, in England.[27] By 1938, some 410 firms employing 264,000 participating workers provided these programs. Only a small

---

[26] *Ibid.*, p. 117. [27] Yoder, *op. cit.*, p. 498.

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

percentage of American firms appear to have used these plans prior to 1942.[28]

Since then profit sharing plans have exhibited marked growth. Four factors have contributed to this increase; the wage freeze during World War II, the special tax treatment of employer contributions, employee benefits under deferred plans, and the increasing prevalence of benefit programs in general and of retirement programs in particular.[29]

There is considerable similarity between pension plans and profit-sharing plans which offer deferred payments. Both plans call for payments to be made today into funds from which benefits will be paid to employees at some future time. Both may qualify for favorable tax treatment under the same sections of the 1954 Internal Revenue Code, sections 401-404 and 501. The principal difference between these two plans is that pension plans generally call for management to commit a fixed amount to the fund while profit sharing plans call for commitments based on the profits of the firm. Labor has usually expressed a preference for the assured annual contribution, while management tends toward plans with contributions based on earnings.

Profit sharing plans can be categorized in several ways; plans for executives only versus plans for all employees;

---

[28] Ibid.

[29] Douglass V. Brown, "An Appraisal of Profit Sharing," Management Record, XXIV (December, 1962), p. 27.

current payment plans versus deferred payment plans; or the incentive designed plan versus the non-incentive type.

A "current-payment" profit-sharing plan calls for frequent, usually annual, payments to the employees of the profit to be shared. This type of plan does not receive tax favor. Although the employer's payment is considered a deductible expense, it is considered as taxable income to the employee. The "deferred-payment" profit plan, if it meets the requirements for qualified plans, is accorded the tax treatment given to "qualified" pension plans.[30]

The history of the tax treatment of profit-sharing plans parallels that of pension plans. The effects attributed to pension plans, generally apply to profit sharing plans; the major difference being one of degree.

Profit sharing plans have not yet decreased the size of the tax base appreciably, although they may in the future. The important effect of the tax treatment is its effect on the taxation of other forms of income; exemption from present taxation has led to requests for similar treatment for other forms of income.[31] Those covered by profit-sharing plans are considered to be saving rather than insuring, since the contributions to profit-sharing plans is often vested in the worker's name and refundable to him.[32]

Profit sharing plans can be considered to have an

---

[30]Macaulay, op. cit., pp. 117-118.

[31]Ibid., p. 121. [32]Ibid.

incentive effect. Such an effect may be divided into two forms; the effect from the tax treatment, and the incentive effect of the plan itself.

Some question the value of profit sharing as an incentive. Profit is tied to several factors; purchasing policies, styling, pricing policies, and plant location, in addition to the employee's contributions. How much of the profit increase is attributable to increased employee productivity is problematical. Another reason for skepticism is that the employee's return fluctuates. Perhaps the employee prefers a more assured level of income and therefore the fluctuations of profits produce an opposite effect from the one intended. Few are willing to carry profit sharing through to its logical conclusion--loss sharing.[33]

Profit sharing plans effect the allocation of reserves, mobility of labor and cyclical stability very much as pension plans do. The lack of vesting operates as a deterrent to labor mobility. On the other hand, since contributions to the plan are based on profits, an element of flexibility is introduced into the rewards of labor.

The results which follow from profit sharing plans are similar to those of pension plans. The principal difference between them are that profit sharing plans involves a smaller amount of money and are less significant than pension plans in this respect. In 1961, pension plan premiums accounted

---

[33]Douglass, op. cit., pp. 27-28.

for 4.2% of the fringe payments as a percent of payroll versus only 0.8% for profit sharing plans.[34] In terms of dollars per year per employee, employer's contributed $40 toward profit sharing plans in contrast to $211 toward pension plans.[35] Also these plans appear to be more like savings than like insurance, and that tax favor is not so often cited as a cause for their adoption.[36]

Stock Option Plans

A third form of a retirement fringe benefit is the employee stock-ownership plan or the stock-option plan. Stock-ownership plans might be considered as another form of profit-sharing. In England, the forerunner of the stock-option plan was profit distribution. Originally profits were distributed in cash; later these profits were divided among employees in the form of stock.[37]

The first stock ownership plans appeared in England as early as 1829 and in France in 1842.[38] In the United States, Proctor and Gamble and the Illinois Central Railway are credited with the first such plans. Both companies started their plan

---

[34] Fringe Benefits 1961, op. cit., p. 13.

[35] Ibid., p. 18.

[36] Macaulay, op. cit., p. 124.

[37] Yoder, op. cit., p. 500.

[38] Ibid., pp. 500-501.

the text of the French [illegible] ably with the greater secular powers.[37] [illegible]

[illegible]

[illegible]

[illegible]

---

[38] [illegible]

[39] Ibid., [illegible]

[40] [illegible]

[41] [illegible]

[42] [illegible]

in 1893.[39]

Profit-sharing plans gained in popularity and use in the United States until the stock market crash in 1929. For the next few years employees remained disenchanted. By 1935, many of the plans had been discontinued, and among those still in force most were restricted to top-management group participation.[40]

Since World War II interest in these plans has been revived. These plans offer an effective means of supplementing retirement income. This aspect is particularly appealing to executives, and to a somewhat lesser degree to other employees.

A typical employee's stock plan is the one presently in effect at the American Telephone and Telegraph Company. In American Telephone and Telegraph's current plan, which began in July, 1962, stock in the company is offered for sale to employees of the company on an installment basis, with equal payments being made over a twenty-four month purchase period. The number of shares employees may purchase under the offering is related to their pay. The purchase price of the offering is 85% of the market price on the last business day of the purchase period specified in the offering, but not more than 85% of the average market price on the day on which the offering is publicly announced. An employee is entitled to cancel his election to purchase under any offering, as a whole or in

---

[39] _Ibid_., p. 501. [40] _Ibid_.

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

part, and to receive cash or purchase shares upon such cancellation.[41]

The American Telephone and Telegraph Employee's Stock Plan is designed for all the employees of the company and its subsidiaries. In other companies, such plans are restricted to management personnel exclusively. The plans go under various titles and differ from one another in certain respects. The "restricted" stock-option plan is a popular type. In this plan the employee is given the right to purchase stock in the employing company at some time in the future at a price determined today, with reference to today's market price. If the price rises in the future and the stock is purchased at the option price, the gain, when realized, is taxed at the capital gains tax rate.[42]

A newer variation of the stock option plan is the stock purchase plan. This plan differs from the stock option in that the company loans the executive the money to buy the stock, charging a nominal interest rate, and applying the dividends to repay the loan. Any gain will be taxed at the capital gains rate.[43]

---

[41]American Telephone and Telegraph Company, Notice of Annual Meeting of Stockholders, March 9, 1963, p. 7.

[42]Macaulay, op. cit., p. 144. See also Timing the Exercise of the Employee Stock Options, 3d ed., Irving Trust Company, 1960. See also George E. Lent and John A. Menge, "The Importance of Restricted Stock Options in Executive Compensation," Management Record, XXIV (June, 1962), pp. 6-13.

[43]Macaulay, op. cit., pp. 144-146.

Deferred Compensation

Both stock option plans and stock purchasing plans can be included within the meaning of the term "deferred compensation." Deferred compensation is a fringe benefit and like fringe benefits is difficult to define. Often authors list what can be considered as deferred compensation rather than attempting to define it. In general, it can be said to mean, "future benefits . . . earned through current services."[44] Pensions, profit sharing plans, group insurance and individual employment contracts, with provisions for future compensation, can also be included under this broad title.[45]

Deferred compensation arrangements vary widely, but they all have at least one common characteristic; they involve extrasalary-payments by the company. In addition to those plans already discussed there are other arrangements that call for or provide for the deferment of a part of base salary or a salary increase but not for the deferment of extrasalary payments. These arrangements fall into one of two general classes; executive bonus plans under which part or all of a yearly bonus is deferred, or company agreements with a handful of top executives that call for specified payments in the event of death, retirement, or severe disability, all in addition to

---

[44] T. Henry Rothschild, 2nd., "Deferred Compensation for Executives: Recent Developments," Management Record, XXIV (April, 1962), p. 2.

[45] Ibid.

a specified minimum salary.[46]

A special type of stock purchase plan known generally as "employee savings plans" has sprouted during the past decade. These plans have certain characteristics which differentiates them from the various plans already discussed.[47] The plans are qualified under section 401(a) of the Internal Revenue Code of 1954. Therefore the company's contributions to the plan can be deducted from corporate gross income for the year in which they are made, and these contributions are not taxable income to a participating employee until distributed to him.

These fringe benefits, deferred compensation, including stock options and stock purchase plans, are not so widely used as pension plans, but they are becoming more popular. The general principles discussed above in relation to other retirement fringe benefits applies equally to these lesser used ones.

This discussion of this one area of fringe benefits emphasizes the complexities involved in the field of non-wage compensation. As fringes become more accepted as a means of compensating employees the subject will increase in complexity. Retirement benefits already exert a strong effect on the labor

---

[46]Harland Fox, "A Deferred Salary Plan for Management," Management Record, XXIII (September, 1961), p. 8. See further discussion of these methods of deferring compensation by John M. Crimmins, "Phantom Stock Plans," Management Record, XXIV (April, 1962), pp. 6-9, and Robert W. Murphy, "Executive Deferred Bonus Plans," Management Record, XXIV (April, 1962), pp. 9-16.

[47]Supra, p. 35.

market, on public finance, on tax policies, and on the country's economy. When they are combined with all the other benefits presently enjoyed by employees, the total effect is great, and will become greater in the future.

CHAPTER V

FRINGES IN THE FUTURE

A discussion of the effects produced by retirement fringe benefits indicates how complicated and complex the entire subject is. As each day passes fringe benefits assume greater importance and become a larger portion of the compensation package.

A discussion of the effects produced by other fringes such as life insurance, death benefits, unemployment and health insurance, and many of the fringe benefits in kind, goods and services given directly to employees, would serve only to emphasize what has already been established.

One of the pressures which has accelerated the growth of fringe benefits has been labor union demands at the bargaining table. Such demands have produced spectacular results, at least spectacular from the unions point of view. Or have they?

For most of the years since World War II a major worry of the unions was the instability of employment. To combat this the unions sought and won such fringe items as supplemental unemployment benefits and increased severance pay, all of which made it more costly to lay anybody off. Such strategy has succeeded and employment has become too stable in the sense

that hiring as well as firing has declined.

The costs of unemployment benefits when combined with all the costs of the other fringe benefits make companies reluctant to hire new workers. Secretary of Labor W. Willard Wirtz, testifying before the House Ways and Means Committee, made the point that it becomes more economical for an employer to pay overtime than to hire new workers.[1] "The employer knows that if production falls, many fringe benefits, particularly supplementary unemployment benefits . . . will remain as a fixed cost if added employees have to be laid off temporarily."[2]

Unions are aware of this situation.[3] Still they insist that if management did away with overtime work and hired new employees, the country's unemployment problem would disappear. Some unions advocate cutting the work week to 35 hours with double time for overtime, contending that this will force management to hire more people and thus reduce unemployment. However, the fringe costs of hiring the new employees may just eliminate the company rather than the overtime.

Unfortunately, in some industries the increase in overtime is caused by the growing complexity of the job.[4]

---

[1] The Washington Post Times Herald, February 17, 1963, p. c-3.

[2] Ibid.

[3] The Wall Street Journal, March 12, 1963, p. 1.

[4] The Washington Post Times Herald, February 17, 1963, p. c-3.

More and more of the jobs cannot be done in forty hours to say nothing of doing them in twenty-five. An added twist of lowering the work week comes from the number of multiple job holders. More than three million Americans hold two or more jobs. This number of multiple job-holders, or "moonlighters," equals 60% of the total of unemployed in the United States in February 1963.[5] If the extra fulltime jobs held by these moonlighters were given to those who are unemployed the country's unemployment problem would be greatly eased.

An example of this paradox is Akron, Ohio where 30% to 50% of the rubber workers moonlight at either a part time or another full time job. The short work week has not helped the unemployment situation there.[6]

One example in Akron points up both the moonlighting problem as well as the fringe benefit problem. One rubber worker worked full time for two rubber companies. He worked for twenty-nine years at one company and for nine of those years worked a different shift at a second company.

The company at which he worked for nine years discovered what he was doing and told him to choose one job or the other. He chose the plant in which he had twenty-nine years of seniority, with higher pension rights and other benefits. The union at the plant where he was discharged tried to have

---

[5] Ibid.

[6] The Washington Post Times Herald, February 18, 1963.

him reinstated so he could resume his moonlighting and preserve his benefits.[7]

Fringe benefits are contributing directly to the present unemployment problems in the country. The solution to the problem, if there is one, will not be simple nor will it be determined quickly.

A further example of how compensation may become more complicated rather than less is found in those companies which have the Guaranteed Annual Wage as part of their compensation package.

During World War II the United Steel Workers proposed that certain of their members, who were permanent employees of the companies within the steel industry, be guaranteed a certain minimum pay per year. This guaranteed annual wage proposal attracted wide attention at the time.[8]

A special government panel, reporting to the Office of War Mobilization and Reconversion, gave support to those who favored a guaranteed annual wage.[9] Thereafter many of the large unions advanced specified plans for such wage provisions.

In 1955, provisions for guarantees were included in

---

[7] _Ibid_.

[8] Yoder, _op. cit_., p. 502.

[9] "Guaranteed Annual Wages: Report to the President by the Advisory Board," Washington Government Printing Office, 1947, cited by Yoder, _op. cit_., p. 502.

the contracts negotiated by the United Automobile Workers with the Ford Motor Company and General Motors.[10]

Guaranteed Annual Wage Plans existed before World War II, but were not wide spread. Among the earliest and best known were those of the George A. Hormel Company, Proctor and Gamble, and the Nunn-Bush Shoe Company. The manner in which these plans operate differ from company to company. For example, the Hormel plan pays each employee his full wages for a 38 hour week regardless of the number of hours the employee may work. In contrast Nunn-Bush relates wages to net sales and revises the estimate every four weeks.[11]

Unions argue that guaranteed annual wages are socially desirable as a means of maintaining purchasing power and preventing recessions. On the other hand employers feel that widespread application of guaranteed wages is impossible.

One difficulty with these plans is that no one can accurately predict the costs of them. The costs of the plans could easily bankrupt an employer in any prolonged depression. The problems involved in such guarantees are complicated and will require thoughtful solutions. Poorly selected solutions could make idleness too attractive and thus discourage employees from seeking work.

One solution to the Guaranteed Annual Wage fringe would be to abolish it altogether and pay <u>all</u> employees a salary. A number of companies have already placed all their

---

[10]<u>Ibid</u>. [11]<u>Ibid</u>.

employees on salary. Many reasons, not connected with the Guaranteed Annual Wage fringe, have motivated this action. Certainly the continuing rise in white-collar workers combined with a corresponding decrease in blue-collar workers, would be an underlying reason. Also, with the technological advances forcing the upgrading of the industrial work force, a change has been taking place in the socio-economic relationship between employers and employees.[12]

Such revolutionary ideas were proposed by the United Auto Workers in September, 1961 to General Motors, Ford and Chrysler.[13] Following past union negotiation patterns, 1961's proposal could become 1966's demand. Management had better prepare itself for the onslaught.

An attempt to visualize every employee receiving a salary is difficult. The wage and non-wage compensation structure which has slowly evolved since the beginning of the Industrial Revolution would need a complete revision. Fringe benefits which are tied directly to hourly rates would have to be reevaluated. Management has had difficulty in the past costing fringe benefits for hourly rated plans but has thrown up its hands in despair when attempting to cost fringe

---

[12] Paul G. Kaponya, "Salaries for All Workers," Harvard Business Review, 40 (May-June, 1962), p. 50.

[13] Ibid., p. 49.

benefits for salaried personnel. If all employees became salaried the non-wage aspect of compensations will have to be re-structured. It would appear certain that an employee would not give up his hard won benefits, in trade for a salary, without considerable persuasion.

CHAPTER VI

CONCLUSIONS

As indicated in the preface, this thesis has attempted to explain, rather than define what non-wages are; show why they are needed; and indicate their cost to the employer. By using retirement fringe benefits as an example, an additional effort was made to show how far-reaching an effect non-wages have on this country's economic activities, and on various aspects of public finance.

The use of fringe benefits has arisen for a variety of reasons. Chief among them has been the social legislation of the nineteen-thirties, the wage negotiations and attendant problems which arose during the second World War, the pressure of labor unions, and the tax status of fringe benefits. "The tax status has been important in the growth of fringe benefits and, reciprocally, the growth of fringe benefits has been important in the increased interest in their tax status."[1]

Many points which bear repetition were covered in this presentation. Initially, there is no acceptable definition of what are "fringe benefits," or "non-wages." This failure to define either term adequately has led many authors and authorities to list benefits in place of defining them; also,

---

[1]Macaulay, op. cit., p. 179.

this lack of definition has led to the situation where no two employers, or for that matter, no two unions, can decide what is properly includable and what is properly excludable as a fringe.

Secondly, an inability to distinguish between wages and non-wages has created a costing problem for the employers. If management is undecided as to what it should include in its non-wage package it certainly will find it difficult to determine how much the package will cost. To compound the costing problem, it is sometimes difficult to assign a cost to an identified fringe, because incomplete accounting information is maintained.

Thirdly, the "why" of fringe benefits is not easy to determine. In 1963, management cannot compete successfully for the talented employee unless its "fringes" are the equal of, or better than, its competitors. Today these non-wages are a fact of economic life, a cost of doing business. A "why" can be easily deduced from this. Twenty-years ago this reasoning would not have answered the question adequately. In 1943, wages were frozen and non-wages were used as a loophole by which strikes and other labor disturbances could be averted. In 1933 non-wages were restricted to white collar workers and to supervisory personnel; management had little need to answer the question of "why?" thirty-years ago. Perhaps the only honest answer management can give as to why it grants fringes is that it is the "right" thing to do for their

[illegible]

[illegible]

[illegible]

employees.

A major problem in the field of compensation, a problem not restricted to non-wages alone, but which also includes wages, is the difficulty of separating compensation from conditions of work. There seems to be no sharply drawn line, but

> it has been suggested that benefits accruing to workers are more likely to be considered as conditions of work when the benefits flow naturally from the particular type of work, or when goods and services purchased by the employer are consumed by all or most employees, in about the same quantities and qualities at the place of employment, with low marginal cost per employee.[2]

As an illustration of the effect fringe benefits produces on the country's economy and in the field of public finance, retirement benefits were discussed in some detail. Pensions, profit-sharing plans, and other similar methods of deferring compensation have grown extremely popular within the past ten years. This popularity and growth stem largely from the tax treatment of these particular fringes. Until, and unless, the tax preference given to these forms of deferred compensation is restricted, these types of non-wages will continue to grow in use.

Deferred compensation, when combined with all other types of non-wages, is creating a new concept within the field of labor relations. Management must exercise extreme caution in its hiring practices because the new employee represents an

---

[2]Macaulay, <u>op. cit</u>., p. 181.

expensive capital investment. The hiring of an improperly screened employee and his subsequent release may represent a heavy expense to the company, because of fringe benefits which accrued to the individual during his employment.

What is the solution to the many problems caused directly or indirectly by fringe benefits? It can be concluded that there is no <u>one</u> answer. In fact, the solution is so interwoven with human behavior factors, about which we know relatively little, that there may be no solution possible until more is known about human nature.

However, there are some things which can be done now which would hasten management, labor, and government, down the road toward a resolution of some of the problems.

First, it is imperative that "fringe benefits" be defined. Ground rules must be laid down upon which a base can be built, from which future negotiations can be constructed. Industries must settle among themselves what they consider can properly be called "benefits and services." Unions must also agree on some basic set of rules among themselves. Once this has been accomplished more reasonable negotiations can then be accomplished.

Secondly, management needs to put its house in order, or at least some companies must. Too often fringes have grown like weeds, completely unchecked. Management must determine how much fringe it can afford. Having done this it can then formulate some plan which can be presented to the

unions at the bargaining table. Too often in the past, the unions have been on the offense, in regards to fringe benefit demands, and management not only has no offensive plan with which to counteract or counterbalance these requests, but frequently has no defensive plan available from which it can defend itself.

It is apparent that the use of fringe benefits has created a great number of problems in the area of public finance. It can be concluded that attempts must be made to improve the tax treatment for each of the benefits. The various tax-preference aspects of many of these benefits cannot be allowed to exist indefinitely, because the net effect is a reduction in the tax base which places a disproportionate amount of the tax burden on those who are not in a position to receive these benefits.

The most significant conclusion which can be drawn from this entire paper deals with the connection between fringe benefits and the mobility of the country's labor force. There is little doubt that fringe benefits in general, and retirement benefits in particular, are having a profound effect in the labor marketplace. Benefits are becoming an increasingly important part of wage contracts, and, as such, an increasingly important part of compensation for labor. There are few, if any, signs that either their growth in dollar terms or their rate of growth is likely to diminish in the near future.

It might be asked if the employee-employer relationship is returning to a position analagous to the serf-master relationship which existed during the "agricultural" period of history. The answer could well be--yes it is. During that era, the serf was entitled to certain well-established rights and benefits. In return for these benefits the serf was expected to perform certain duties and he had other obligations. The serf found it difficult, almost impossible to break away from what was little more than bondage. The labor-management relationship is returning to this situation according to some. As Richard Lester says:

> No one would think of applying a labor-market concept to the feudal economy of the mediaeval manor. The serfs would not fit into that kind of intellectual framework. Although employment with . . . firms is still a far cry from feudal relationships, nevertheless the trend toward accumulating company obligations and attachments is unmistakable. Consequently, it is becoming more fanciful to visualize public employment exchanges as potentially comprehensive labor exchanges for the community. Less and less does labor "flow" like commodities; more and more it is developing a single work-life attachment to a company, which tie extends into the period of retirement of the employee.[3]

---

[3]Lester, op. cit., p. 442.

APPENDIX I

REPRESENTATIVE LIST OF FRINGE BENEFITS

1. Advance on wages
2. Banking assistance or service
3. Board and room allowances
4. Bonuses (Christmas and others)
5. Call-back pay
6. Call-in or reporting pay
7. Coffee breaks
8. Credit assistance, credit unions
9. Discounts on purchases
10. Educational grants and refunds
11. Escalator adjustments (cost-of-living)
12. Food services (subsidized)
13. Guaranteed Weekly or annual wage
14. Health and welfare plans
15. Hospitalization (individual or family)
16. Housing aids
17. Insurance (individual or group): accident (non-work-connected)
18. Insurance catastrophe
19. " life
20. " maternity
21. " medical treatment
22. " sickness
23. " surgical treatment
24. Meal allowances
25. Nursery services
26. Paid time off for: arbitrations
27. " birthdays
28. " clothing change
29. " dentist
30. " fishing
31. " funerals
32. " grievances
33. " holidays
34. " hunting
35. Paid time off for: jury duty
36. " lunch
37. " maternity leave
38. " medical attention
39. " military duty
40. " "personal" reasons
41. " travel time
42. " union business
43. " voting
44. " wash up
45. " weddings
46. " witness duty
47. " workmen's compensation hearings
48. Portal-to-portal pay
49. Premium pay for: hazardous or unpleasant work
50. " holidays
51. " late shift
52. " overtime
53. " sixth day
54. " Sunday
55. Productivity or "improvement" increases
56. Rest periods
57. Royalities to unions
58. Savings plans
59. Severance pay
60. Sick leave
61. Stock purchase privilege
62. Supplementary unemployment benefits
63. Travel allowances
64. Unemployment compensation
65. Workmen's compensation

Source: Dale Yoder, Personnel Management and Industrial Relations (Englewood Cliffs, New Jersey: Prentice-Hall, Inc., 1956), p. 492.

APPENDIX II

ENUMERATION OF WAGE SUPPLEMENTS

A. Pay for time not worked

1. Vacations
2. Holidays
3. Lunch periods
4. Sick and maternity leaves
5. Medical care time (at the plant)
6. Personal excused-absence time
   a. Death in the family
   b. Shopping time
   c. Medical and dental care time (away from plant)
7. Jury duty time
8. Voting time
9. Wet time (time lost due to inclement weather)
10. Witness time

B. Monetary awards and prizes for special activities and performance

1. Anniversary awards
2. Attendance bonus
3. Plant neatness bonus
4. Service bonuses and awards
5. Quality bonus
6. Prize awards in employee contests relating to safety, waste reduction, morale, and other subjects
7. Suggestion plan awards
8. Other non-production bonuses or awards requiring some special employee activity or service

C. Bonuses, contributions, and profit sharing, for which the employee renders no direct regular or special service

1. Current profit-sharing payments (not related to provisions of retirement income)
2. Stock (thrift) plan contributions
3. Stock purchase plan contributions
4. Sale of company stock at less than current value
5. Christmas or year end bonus
6. Separation allowance (dismissal, severance, or terminal pay)
7. Layoff pay or allowance
8. Military induction bonus
9. Military service allowance
10. Supplements to unemployment or workmen's compensation

11. Family allowance
12. Educational subsidies or tuition or expense payments (when not related directly to the employee's job)
13. College scholarship awards to employee's sons and daughters

D. Payments to provide employee security and financial protection against various hazards and contingencies

1. Legally required payments: a. Old-age and survivors insurance; b. Unemployment insurance; c. Workmen's compensation; d. State disability insurance

2. Other payments to provide protection (by insurance or otherwise) against: a. Death; b. Nonoccupational accident, sickness, and dismemberment; c. Hospitalization expense; d. Medical expense; e. Surgical expense; f. Retirement (pension and in some cases deferred profit-sharing plans)

3. Employee welfare fund contributions

4. Administrative costs of employee benefit programs

E. Practices and service that benefit employees primarily

1. Credit union facilities
2. Food service costs or losses
3. Employee discounts
4. Music lessons, golf instruction, and other services rendered at reduced cost or at no cost to employees and dependents
5. Garden plots
6. Vacation, health, and hospital facilities provided at low cost
7. House financing

Source: C. W. Sargent, "Fringe" Benefits: Do We Know Enough About Them? (Hanover, New Hampshire: Amos Tuck School of Business Administration, 1953), pp. 14-15, cited by Hugh H. Macaulay, Jr., Fringe Benefits and Their Federal Tax Treatment (New York: Columbia University Press, 1959), pp. 185-186.

APPENDIX III

QUESTIONNAIRE USED BY THE CHAMBER OF COMMERCE IN ITS SURVEY OF FRINGE BENEFITS IN 1961

Instructions

1. Coverage. If you have several divisions or plants, data covering any typical group of employees will be satisfactory.

2. Employees covered in survey. Except for banks, financial institutions, etc., limit data included in this report to hourly-rated employees and to salaried employees who are paid on a similar basis. That is, include data for salaried employees if their pay varies depending on whether they work overtime, or less than full time, but do not include them if they receive their regular daily or weekly pay regardless of hours worked. Since this definition would exclude many employees of banks, financial institutions, etc., for these firms please include all nonsupervisory employees and all working supervisors, regardless of their method of payment.

3. Approximate or incomplete data. If you are unable to give exact data for the various items in the questionnaire, please give estimates--we would prefer a good estimate to a blank space. If you are unable to break down the data on payments exactly as we have outlined it, please give the data that is available. Please indicate the items for which payments were made, but for which you cannot give separate figures.

4. Question A. Gross payroll data. For this item report actual wages (not take-home pay after deductions have been made). Report on line A-1 the straight-time wages only, and report premium and bonus payments on other lines. Thus, if an employee receives $2.00 an hour for straight-time, and $1.00 additional for overtime after 40 hours, for each hour of overtime worked after 40 hours, $2.00 would be entered on line A-1, and $1.00 on line A-2.

5. Items C-1, C-3, C-5 and C-7. Pension and insurance premiums. For pension and insurance premiums, report net payments after deducting any dividends or credits returned to employer by insurer. Profit-sharing payments are reported on line F-1.

6. Question C-9. Contributions to privately financed unemployment benefit funds. Report on this line employer payments into unemployment benefit funds similar to those established in the automobile, metal can and glass industries. Payments under guaranteed workweek or workyear should be reported on line E-4.

7. Question G. Employee payroll deductions. For this question report deductions from employee pay. Employer contributions are reported in questions "B" and "C."

8. Question H. Payroll hours. This is the number of hours corresponding to earnings given on line A-1. Payroll hours for full-time employee. Enter the total number of payroll hours for a typical full-time employee in 1961. It would be the number of hours representing his wages shown on line A-1, including his paid vacation period, paid holidays, paid sick leave, etc. If hours would not be the same for all employees, show the hours for the majority of employees.

FRINGE BENEFITS SURVEY--1961

Name of Firm ______________________________

Address ____________________ Date ____________________

Name of Company Official _____ Title ________________

Show actual data or best estimate for employees covered in survey.

			Total amount for 1961
	A. Gross payroll for employees in survey: (See Instructions No. 4)		
1.	Straight-time pay for employees in survey......		$
2.	Overtime premium pay......	Include BONUS AND	$
3.	Holiday premium pay.......	PREMIUM PAY ONLY	$
4.	Shift differential........	on lines 2-6.	$
5.	Earned incentive or	Report straight-	$
	production bonus..........	time pay on line	$
6.	Other (Specify: __________)	"1".	$
7.	Total Gross payroll		$
	B. Legally required payments (employer's share only):		
1.	Old-Age, Survivors and Disability Insurance...		$
2.	Unemployment Compensation (Federal and state taxes)............		$
3.	Workmen's compensation (estimate cost of self-insured).........		$
4.	Railroad Retirement Tax		$
5.	Railroad Unemployment Insurance		$
6.	State sickness benefits insurance		$
7.	Other (Specify: ______________________________)		$
8.	Total		$
	C. Voluntary or agreed-upon payments (employer's share only):		
1.	Pension plan premiums (net): (a) Past service liability............................		$
	(See Instructions No. 5) (b) Current service premiums		$
2.	Pension payments not covered by insurance-type plan		$
3.	Life insurance premiums (net)		$
4.	Death benefits not covered by insurance		$
5.	Sickness, accident, surgical or medical care insurance premiums (net)		$
6.	Accident, surgical or medical care payments not insured		$

		Total Amount for 1961
7.	Hospitalization insurance premiums (including cooperatives such as Blue Cross) (net)	$________
8.	Hospitalization payments not covered by insurance-type plan	$________
9.	Contributions to privately financed unemployment benefit funds. (See Instructions No. 6)	$________
10.	Separation or termination pay allowances ...	$________
11.	Discounts on goods and services purchased from company by employees	$________
12.	Employee meals furnished by company	$________
13.	Other (specify): ____________________)	$________
14.	Total	$________
	D. Paid rest periods, lunch periods, wash-up time, travel time, clothes-change time, get-ready time, etc....................	$________
	E. Payments for time not worked:	
1.	Payments for or in lieu of vacations	$________
2.	Payments for holidays not worked	$________
3.	Sick leave pay	$________
4.	Payments required under guaranteed workweek or workyear	$________
5.	Jury, witness and voting pay allowances	$________
6.	National Defense, State or National Guard duty	$________
7.	Payment for time lost due to death in family or other personal reasons	$________
8.	Other (Specify: ____________________)	$________
9.	Total	$________
	F. Other items:	
1.	Profit-sharing payments	$________
2.	Christmas or other special bonuses, service awards, suggestion awards, etc. (Omit regular production bonuses)	$________
3.	Employee education expenditures (tuition refunds, etc.)	$________
4.	Payments to union stewards or officials for time spent in settling grievances or in negotiating agreements	$________
5.	Special wage payments ordered by courts, wage adjustment boards, etc.	$________
6.	Other (Specify: ____________________)	$________
7.	Total	$________

Total amount for 1961

G. Employee payroll deductions:
(See Instructions No. 7)

1. Old-Age, Survivors and Disability Insurance .. $__________
2. Railroad Retirement Tax .... $__________
3. State sickness benefits insurance tax .... $__________
4. Pension plan premiums or contributions .... $__________
5. Life insurance premiums .... $__________
6. Sickness, accident, surgical or medical care insurance premiums or contributions ..... $__________
7. Hospitalization insurance premiums or contributions (include cooperatives such as Blue Cross) .... $__________
8. Total .... $__________

H. Payroll hours (time actually worked, plus holidays, vacation, sick leave and other time paid for but not worked):
(See Instructions No. 8)

1. Total for all employees in survey__________hours
2. For typical full-time employee_____________hours

I. Type of business and principal lines or products manufactured or handled:

____

Source: Chamber of Commerce of the United States of America, Fringe Benefits 1961, A Report Prepared by the Economic Research Department (Washington, D. C.: Chamber of Commerce of the United States, 1962), p. 30.

APPENDIX IV

GENERAL REQUIREMENTS FOR QUALIFICATION OF A PENSION OR PROFIT SHARING PLAN

A. The plan is one established by the employer for the exclusive benefit of his employee or their beneficiaries.

B. The sole purpose of the plan is to offer to the employees (or their beneficiaries) either (a) a share of the profits of the business or (b) an income after retirement.

C. The plan is permanent.

D. The plan is in writing.

E. The plan is communicated to the employees.

F. The plan is in effect.

If a trust is involved, the following requirements relating to the trust must be satisfied as well:

G. It must be impossible under the trust instrument for any of the trust corpus or income to be used at any time other than for the exclusive benefit of the employees or their beneficiaries.

H. The contributions to the trust must be for the purpose of accumulating funds for distribution to employees or their beneficiaries in accordance with a plan qualified under the tax law, Sec. 401(a).

I. The trust is valid and existing under controlling local law.

Source: Prentice-Hall, Inc., *Prentice-Hall Pension and Profit Sharing Service* (New York: Prentice-Hall, Inc., loose leaf), par. 1671, cited by Hugh H. Macaulay, Jr., *Fringe Benefits and Their Federal Tax Treatment* (New York: Columbia University Press, 1959), p. 192.

BIBLIOGRAPHY

Books

Haire, Mason. Psychology in Management. New York: McGraw-Hill Book Company, Inc., 1956.

Hechman, I. L. and Huneryager, S. G. (ed.). Management of the Personnel Function. Columbus, Ohio: Charles E. Merrill Books, Inc., 1962.

Jucius, Michael J. Personnel Management, 4th ed. Homewood, Illinois: Richard D. Irwin, Inc., 1959.

Koontz, Harold and O'Donnell, Cyril. Principles of Management: An Analysis of Managerial Functions. New York: McGraw-Hill Book Company, Inc., 1955.

Lemke, B. C. and Edwards, James D. Administrative Control and Executive Action. Columbus, Ohio: Charles E. Merrill, Inc., 1961.

Macaulay, Hugh H. Fringe Benefits and Their Federal Tax Treatment. New York: Columbia University Press, 1959.

Pigors, Paul and Myers, Charles A. Personnel Administration: A Point of View and a Method, 4th ed. New York: McGraw-Hill Book Company, Inc., 1961.

Yoder, Dale. Personnel Management and Industrial Relations, 4th ed. Englewood Cliffs, New Jersey: Prentice-Hall, Inc., 1956.

Whyte, William F., et. al. Money and Motivation. New York: Harper Brothers Publishers, 1955.

Articles and Periodicals

Aldis, Owen. "Of Pigeons and Men," Harvard Business Review, XXXIX (July-August, 1961), 59-63.

"Bargaining for Bagels," The Management Review, XLVIII (July, 1959), 34.

Bassett, H. Y. "What Else Besides More Money?" <u>Personnel</u>, XXXVII (March-April, 1960), 26-32.

Bines, William H. "A Call to Arms. . . . for Peace," <u>Harvard Business Review</u>, XXXVIII (July-August, 1961), 64-68.

Brown, Douglass V. "An Appraisal of Profit Sharing," <u>Management Record</u>, XXIV (December, 1962), 27-28.

<u>The Christian Science Monitor</u>, 1959.

Crimmins, John M. "Phantom Stock Plan," <u>Management Record</u>, XXIV (April, 1962), 6-9.

Filley, Alan C. "Spotlight on Moonlighting," <u>Personnel</u>, XXXVI (November-December, 1960), 45-49.

Fisher, Austin M. and Chapman, John F. "Big Costs of Little Fringes," <u>Harvard Business Review</u>, XXXII (September-October, 1954), 35-44.

Foegen, Joseph H. "Product Mix for Fringe Benefits," <u>Harvard Business Review</u>, XXXIX (July-August, 1961), 64-68.

Fox, Harland. "Combining Short and Long Term Employee Savings Plans," <u>Management Record</u>, XXIII (May, 1961), 3-14.

________. "A Deferred Salary Plan for Management," <u>Management Record</u>, XXIII (September, 1961), 8-14.

________. "Disability Pensions, 1961," <u>Management Record</u>, XXIV (September, 1962), 11-20.

________. "Top Executive Pensions, 1957 and 1961," <u>Management Record</u>, XXIV (December, 1962), 2-6.

"Fringe Benefits: Some Neglected Considerations," <u>Personnel</u>, XXXIII (January, 1957), 337-346.

Gregory, Carl E. "What is Morale?" <u>Personnel</u>, XXXVI (March-April, 1959), 32-41.

"Growing Fringes Boost Costs, Prices," <u>Nation's Business</u>, L (July, 1962), 80-81.

Harrow, Herman. "Hidden Advantages of Non-Contributory Benefit Plan," <u>Personnel</u>, 39 (September-October, 1962), 43-46.

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

________. [illegible]

________. [illegible]

________. [illegible]

[illegible]

[illegible]

[illegible]

[illegible]

"Keeping the Lid on Benefit Costs," The Management Review, XLVI (November, 1957), 11-21 and 83-85.

Kaponya, Paul G. "Salaries for All Employees," Harvard Business Review, 40 (May-June, 1962), 49-57.

Kerpen, Miriam and Meyer, Mitchell. "The Growth of Corporate Pension Funds," Management Record, XXIII (July-August, 1961), 18-22.

Kerpen, Miriam and Fox, Harland. "Mandatory Retirement Practices," Management Record, XXIV (February, 1962), 14-18.

Kerpen, Miriam C. "The New Federal Program for Extended Jobless Pay," Management Record, XXIII (April, 1961), 12-16.

________. "Reducing the Work Time of Older Employees," Management Record, XXIV (October, 1962), 2-7.

Lent, George E. and Menge, John A. "The Importance of Restricted Stock Options in Executive Compensation," Management Record, XXIV (June, 1962), 6-13.

"Less for Fringes in '58," The Management Review, XLVIII (October, 1959), 51.

Lester, Richard A. "Revolution in Industrial Relations," Labor Law Journal, IX (June, 1958), 439-443.

Lewis, Willard A. "Unemployment Compensation in Labor Disputes," Management Record, XXIII (January, 1961), 2-6.

McMurray, Robert N. "The Case for Benevolent Autocracy," Harvard Business Review, XXXVI (January-February, 1958), 82-86.

McNair, Malcolm P. "What Price Human Relations," Harvard Business Review, XXXV (March-April, 1957), 15-39.

Murphy, Robert W. "Executive Deferred Bonus Plans," Management Record, XXIV (April, 1962), 9-16.

Navy Times, 1961, 1962, 1963.

The Plain Dealer (Cleveland), 1961.

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

______. [illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

O'Meara, J. Roger. "Hidden Pay Check Contest," Management Record, XXIII (November, 1961), 14-15.

________. "Putting a Price Tag on Fringes," Management Record, XXIII (May, 1961), 24-25.

________. "When an Employee Dies," Management Record, XXIII (February, 1961), 15-24.

"The Rising Costs of Fringe Benefits," The Management Review, XLVI (April, 1957), 45.

Rothe, Harold F. "Does Higher Pay Bring Higher Productivity?" Personnel, XXXVII (July-August, 1960), 20-27.

Rothschild, V. Henry, 2nd. "Deferred Compensation for Executives: Recent Developments," Management Record, XXIV (April, 1962), 2-6.

The Wall Street Journal, 1962, 1963.

The Washington Post Times Herald, 1962, 1963.

Reports

Chamber of Commerce of the United States of America. Fringe Benefits 1961. A Report Prepared by the Economic Research Department, Washington, D. C., 1962.

Defense Advisory Committee on Professional and Technical Compensation. A Modern Concept of Manpower Management and Compensation for Personnel of the Uniformed Services, Volume I--Military Personnel. Washington, D. C.: United States Government Printing Office, May, 1957.

National Industrial Conference Board, Inc. Annual Salaries, Road Maps of Industry, No. 1406, The Conference Board. New York: December 7, 1962.

________. The Average Work Week, Road Maps to Industry, No. 1404, The Conference Board. New York: November 23, 1962.

________. Computing the Cost of Fringe Benefits. A Conference Board Report Prepared by the Division of Personnel Administration, Study in Personnel Policy No. 128. New York: 1952.

________. Corporate Pension Funds, Road Maps to Industry, No. 1334, The Conference Board. New York: July 21, 1961.

________. *Top Executive Compensation*. A Conference Board Report Prepared by the Division of Personnel Administration, Study in Personnel Policy No. 179. New York: 1960.

________. *Top Executive Compensation*. A Conference Board Report Prepared by the Division of Personnel Administration, Study in Personnel Policy No. 186. New York: 1962.

________. *Fringes and Labor Costs, 1959*, Road Maps to Industry, No. 1329, The Conference Board. New York: June 16, 1961.

________. *Fringe Benefit Packages*. A Conference Board Report Prepared by the Division of Personnel Administration, Study in Personnel Policy No. 143. New York: 1954.

________. *Labor Costs and Employment in Manufacturing*. Road Maps to Industry No. 1385, The Conference Board. New York: July 13, 1962.

The Study Committee of the University of Michigan. *A Study of the Military Retired Pay System and Certain Related Subjects*. A Report to the Committee on Armed Services, United States Senate. Washington, D. C.: United States Government Printing Office, 1961.

Unpublished Material

"Classification and Costs of Military Compensation." (Mimeographed).

"History of the Military Retirement System." (Mimeographed).

Lehman, William P. "Federal Civilian--Private Enterprise Linkage." (Mimeographed).

________. "Some Facets of Comparability." April 10, 1962. (Mimeographed).

Office of the Assistant Secretary of Defense for Manpower, "Present Military Retirement System," April 1962. (Mimeographed).

Other Sources

Evans, Bergen and Evans, Cornelia. A Dictionary of Contemporary American Usage. New York: Random House, 1957.

"Notice of Annual Meeting of Stockholders," American Telephone and Telegraph Company. New York: March 9, 1963.

Stedman, Rev. Joseph F. (ed.) Daily Readings from the New Testament. Confraternity of the Precious Blood. Brooklyn, New York.

Timing the Exercise of Employee Stock Options, Irving Trust Company. New York: March, 1960.

Webster's New Collegiate Dictionary. 6th ed. Springfield, Massachusetts: G & C Merriam Co., Publishers.